

**INSTITUTIONAL POLITICAL ECONOMY OF  
ECONOMIC DEVELOPMENT AND GLOBAL GOVERNANCE**

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**EMRE ÖZÇELİK**

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Prof. Dr. Sencer Ayata  
Director

I certify that this thesis satisfies all the requirements as a thesis for the degree of Doctor of Philosophy.

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Prof. Dr. Haluk Erlat  
Head of Department

This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Doctor of Philosophy.

---

Prof. Dr. Eyüp Özveren  
Supervisor

**Examining Committee Members**

Prof. Dr. Eyüp Özveren	(METU, ECON)	_____
Assoc. Prof. Dr. Ahmet H. Köse	(Ankara U., ECON)	_____
Assoc. Prof. Dr. Hüseyin Özel	(Hacettepe U., ECON)	_____
Assoc. Prof. Dr. Cem Somel	(METU, ECON)	_____
Asist. Prof. Dr. Galip Yalman	(METU, ADM)	_____

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Name, Last name: Emre Özçelik

Signature:

## ABSTRACT

### INSTITUTIONAL POLITICAL ECONOMY OF ECONOMIC DEVELOPMENT AND GLOBAL GOVERNANCE

Özçelik, Emre

Ph.D., Department of Economics

Supervisor: Prof. Dr. Eyüp Özveren

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There are two inter-related themes of this thesis: Economic development and global governance. We develop a perspective of – what we call – ‘Institutional International Political Economy’ (IIPE) in order to: i) assess the likelihood of developmental success on the part of the Third World countries in the twenty-first century, and ii) analyze the developmental and world-systemic implications of the so-called ‘global governance model’, which we conceptualize as an ultra-liberal capitalist project on the part of the ‘commanding heights’ of the contemporary ‘world-economy’. Our IIPE-perspective relies on an ‘institutionalist’ synthesis of the classic works of Karl Polanyi, Joseph Schumpeter and Fernand Braudel. In the light of this perspective, ‘state-led development’ seems to be inconceivable in the face of ‘governance’, which is an attempt to disintegrate the ‘institutional substance’ of the state-as-we-know-it into ‘market-like processes’. Nevertheless, ‘governance’ is bound to become the victim of its own success insofar as it destroys the indispensable political institutions upon which capitalism has survived as a historical world-system in the past.

Keywords: Development, Governance, Capitalism, Market, State, Institutional Economics, International Political Economy

## ÖZ

### KURUMSAL SİYASAL İKTİSAT YAKLAŞIMIYLA İKTİSADI KALKINMA VE KÜRESEL YÖNETİŞİM

Özçelik, Emre

Doktora, İktisat Bölümü

Tez Yöneticisi: Prof. Dr. Eyüp Özveren

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Bu tezin, birbiriyle ilişkili iki vurgusu vardır: İktisadi kalkınma ve küresel yönetim. Yirmibirinci yüzyılda Üçüncü Dünya ülkelerinin kalkınmayı başarma olasılıklarını değerlendirmek ve günümüzün ‘dünya-ekonomi’sinin ‘egemen dorukları’ınca yürütülen aşırı-liberal kapitalist bir tasarım olarak kavramsallaştırdığımız ‘küresel yönetim model’inin kalkınma çabalarının ve ‘dünya-sistem’in geleceği açısından ne anlama geldiğini çözümlemek amacıyla, ‘Kurumsal Uluslararası Siyasal İktisat’ (KUSİ) olarak adlandırdığımız bir yaklaşım geliştiriyoruz. Bu yaklaşımı, Karl Polanyi, Joseph Schumpeter ve Fernand Braudel'in klasik eserlerinin ‘kurumsalcı’ bir sentezine dayanmaktadır. Bu çerçevede, ‘devletçi kalkınma’, ‘bildik devlet’in kurumsal özünü parçalayarak piyasa-benzeri süreçlere dönüştürmeye giren yönetim karşısında olanaksız görünmektedir. Bununla birlikte, yönetim; kapitalizmin tarihsel bir dünya-sistem olarak üzerinde geliştiği ve varlığını sürdürmesini sağlayan vazgeçilmez siyasal kurumları yok ettiği ölçüde, kendi sonunu hazırlamaktadır.

Anahtar Kelimeler: Kalkınma, Yönetim, Kapitalizm, Piyasa, Devlet, Kurumsal İktisat, Uluslararası Siyasal İktisat

To my parents

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Seven Ağır consistently disagreed with me concerning the ‘infeasibility’ of state-led developmentalism and ‘spontaneous’ collapsibility of capitalism. All the same, her ‘didactic’ warnings were always appreciable insofar as she made me re-think on developmental issues and world-systems analysis.

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## CHAPTER 1

### INTRODUCTION

It is our intention to accomplish two challenging tasks in the pages that follow. On the one hand, we seek to construct an original perspective of Institutional International Political Economy (IIPE), which would promote our perception of capitalism-as-a-historical-world-system. On the other hand, we attempt to demonstrate that ‘reclaiming development’ has never been more formidable throughout capitalist history than in the present century. These purposes are inter-related. The developmental agenda of the past and the present provides us with the most relevant units of analysis that are to be utilized in our perspective of IIPE, which, in turn, is constructed so as to focus upon the capitalist obstacles on the way to ‘reclaiming development’.

In the first place, we classify economic theory-and-policy into two major types for our convenience. Our first category corresponds to ‘orthodox economics’ that survives within the rubric of ‘almighty’ neoclassical economics, which interacts with the variants of (neo-) liberal approaches such as the Austrian School, Chicago School, Public Choice School as well as New Institutional Economics. In juxtaposition to that, the remaining types of economics are classified under ‘heterodox economics’, which is taken to be a comprehensive set that encompasses variants of Structuralist School, Keynesians, Radical Economics and Original Institutional Economics. To be sure, such a ‘straight-jacketing’ of schools of economics is objectionable. However, one of our major purposes is to emphasize an ongoing bifurcation within the history of economic thought. Basically two types of economists have come to occupy academic and

policy-making organizations: The proponents of state-led policies *versus* the proponents of market-oriented solutions. This is our fundamental criterion in our above-mentioned and presumably far-reaching classification.<sup>1</sup>

Given these two broader frameworks, we will deal with the subject-matter of ‘developmental issues’ at world-economy level of analysis. One of our concerns is to question the feasibility of policy proposals of a recently published study in heterodox economics; namely, *Reclaiming Development: An Alternative Economic Policy Manual* (Zed Books, 2004) by Ha-Joon Chang and Ilene Grabel.<sup>2</sup> Considering this work as a case of heterodox optimism, our contention is that orthodoxy is still a few steps further ahead in terms of ‘political effectiveness’ in the real world-economy. This is, to be sure, all the more ironical since heterodox approaches have regularly advocated *real-political* economic analysis for the sake of transfiguring the world in a conscious manner, whereas the neoclassical orthodoxy has always invoked a ‘disinterested’ *pure* economics in accordance with its ‘scientific’ concerns.

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<sup>1</sup> As a matter of fact, the orthodoxy and the heterodoxy replace each other over time (Rapley, 2002: 70). For instance, for the period from 1945 to 1970, Keynesianism/Structuralism can be considered to have constituted the orthodoxy, whereas neoclassical liberalism was the discredited outcast. These research programs have changed roles since the late 1970s. It goes without saying that our treatment of the distinction between the orthodoxy and the heterodoxy relies on the contemporary dominance of market-oriented neoliberalism.

<sup>2</sup> In the beginning, we should explain the reason why we especially focus attention on this book as if it were a ‘Bible’ for developmental issues. We will discuss in some detail in the next chapter the decline of ‘Development Economics’ as a discipline all along the 1970s and 1980s. Nevertheless, a revival of developmental analysis is witnessed in the literature from the late 1980s onwards. Along with the rise of an interest in the success stories of the East Asian countries, the developmental role of the state has been accentuated by especially such leading figures as Amsden (1989) and Wade (1990, 1994, 1996a, 1996b). In a similar vein, Ha-Joon Chang has contributed significantly to the ‘institutionalization’ of this line of developmental critique of neoliberalism. This is “a critique that James Peach (2003, 131) sees as an institution in its own right and that ‘may contribute to reaching [beyond] the [mainstream’s] threshold of resistance to change’. Ha-Joon Chang (2003) best exemplifies the new critique” (Jameson, 2006: 372) along with his other numerous contributions that we will summarize in the next chapter. In this respect, the recent work by Chang & Grabel (2004) can be considered as the *culmination* of this ‘state-led’ heterodox literature against the market-oriented orthodoxy. Hence, it provides us with quite thorough: i) counter-arguments against the tenets of neoliberal orthodoxy, and ii) heterodox prescriptions for development, whereby we can develop a world-systemic critique of both the market-oriented model of ‘governance’ and the conventional framework of state-led developmentalism.

For the purposes of this study, we identify the heterodoxy with its ‘state-led’ policy alternatives in contra-distinction to the ‘market-oriented’ solutions of the orthodoxy. We consider Chang and Grabel as ‘heterodox economists’. On the other side, as an extension of its neoliberal policies of the last quarter of a century, the orthodoxy is nowadays dictating a so-called ‘global governance model’, which envisages a peculiar role for the state. To be efficient, the state must work like the market. This model finds its best expression in its call for the ‘independence’ of basic regulatory institutions and the ‘involvement’ of a loosely-defined civil society within the processes of politico-economic decision-making. It seems that the new ambition of the orthodoxy is no less than a venture that may end up converting ‘the state’ – a political institution – into a ‘natural’ process mirrored after the image of ‘the market’. On the other side, particular heterodox economists are still proposing state-led policies for development. The potential problem is that conventional *policy-making ability* of the state would be totally eliminated, if the ambitions of the orthodoxy happened to be completely materialized. Our assertion is that, in these turbulent times, state-led policy proposals are hardly feasible. Hence, it is rather dubious whether such proposals constitute a priority item in a truly anti-orthodox agenda.

We concur that state-led policies could work far better than market-oriented self-regulation on the way to achieving sustainable and equitable development. However, we also feel strong concern for the ‘institutional’ integrity of the state apparatus. What is at stake is this kind of integrity in the face of a *radical* threat made by the orthodoxy. Hence, it is not an urgency nowadays to delve into the details of state-led policy alternatives. Indeed, it is high time to focus upon a correct diagnosis regarding the dynamics of the contemporary world economy. In the absence of a correct diagnosis, utilization of society-friendly capabilities of the state may remain as wishful thinking *vis-à-vis* the ‘market-friendly’ dominance of the orthodoxy. The governance model seems to be a radical and revolutionary global project claiming to form ‘the only alternative’ for ‘development’. If heterodox economists ignore or play down the global

governance project, state-led policy possibilities can all the more easily become a ‘stark utopia’ following the ‘marketization’ of the state.

We believe that the true implication of the global governance model can best be understood by means of a historical perspective directed towards the relationship between capitalism and ‘the market’ in juxtaposition to the role of ‘the state’. In the course of this study, we will conceptualize ‘the state’ and ‘the market’ as two major complementary institutions at the service of the commanding heights of the capitalist world-system, which is centuries old. In other words, we argue that both ‘the state’ and ‘the market’ have survived as essentially *capitalist* institutions over a considerable *longue durée* of human history.<sup>3</sup> At this point, we should reserve some introductory space to explain our conception of *capitalism*.

We choose to treat ‘capitalism’ as a *historical world-system* in an effort to follow in the footsteps of French historian Fernand Braudel and the leading ‘world-systems’ analyst Immanuel Wallerstein. We are convinced that the essential features of capitalism can best be grasped by means of *world-economy* level of analysis in the context of a sufficiently long ‘evolutionary’ scheme. As such, we prefer to carry out our analysis with an emphasis on the continuity, interconnectedness and similarity among different types of capitalisms experienced at different places and different times – rather than focusing upon the discreteness, independence and dissimilarity among them. In our perception, the spatial unit of analysis is ‘world-economy’, which is a term due to Braudel and Wallerstein. A ‘world-economy’ (with a hyphen) is a space defined by the existence of a single division of labor (coexistent with multiple states), whereas

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<sup>3</sup> In this regard, we should remind the reader of the implicit link between our ‘institutional’ approach and the Marxist literature on state-class relationships. Insofar as class interests are fulfilled by the use of ‘the state’ as a power pivot, our approach is not an alternative to state-class analysis. That is to say, there is only a difference of degree of emphasis between our approach and class-based analysis of the state. In the face of the spread of ‘governance’ as a hegemonic project to alter the ‘institutional substance’ of the state, our institution-based approach is intended for putting forward a complementary framework in juxtaposition to (rather than a substitute framework instead of) class analysis. In short, we accentuate the need for reinforcing the investigations relying on ‘class conflict’ by drawing attention to the ‘institutional contradictions’ of capitalism as a historical world-system.

‘world economy’ (without a hyphen) would indicate the arithmetic summation of national economies each of which would possess a division of labor and a state of its own (Wallerstein, 1979: 6). It is “an economically autonomous section of the planet able to provide for most of its own needs, a section to which its internal links and exchanges give a certain organic unity” (Braudel, 1984: 22). ‘World-economy’ is useful for treating the capitalist unity in terms of its common dynamics constitutive of economic inequalities and power asymmetries. In the wake of the so-called ‘globalization’, if there is now a pervasive discourse on global ‘governance’ as the nascent institutional setup of the global economy, we might as well as treat this new concept in relation with the systemic unity and asymmetries to which it corresponds. As such, it becomes possible to deal with the common features of different capitalist world-economies so that the world economy as a whole can be conceptualized as a comprehensive capitalist world-system with its own organic unity. On the other side, the temporal unit of analysis is *longue durée*, which lasts “a century or longer as a unit of analysis”, and which is, for Braudel, “the most suitable notion for investigating the slow-changing and structurally stable aspects of history” (Lai, 2000: 67). As such, the continuity and the integrity of capitalist world-economies can be perceived to form an ‘evolutionary’ chain of capitalist institutions.

More importantly, our perception of capitalism is the consequence of an *unconventional* contra-distinction between capitalism and what may be called ‘the true market’. We treat capitalism not only as a historical world-system, but also as the “exact opposite” of ‘the true market’ (Braudel, 1982: 22). In this regard, capitalism is “the zone of the anti-market” (Braudel, 1982: 230). Unlike conventional Marxists and liberals, Braudel envisages capitalism as the enemy of fairly competitive market – a latently benign institution. The fairly competitive market can be envisaged with its transparent rules. However, these would-be beneficial rules have always been distorted by the anti-market activities – monopolistic/oligopolistic and speculative practices – of the genuine capitalists, who, in their turn, have always been averse to complete

specialization in production, trade or finance. We envisage capitalism as a world-system maintained by non-specializing monopolistic/oligopolistic entities, which are ‘contortionists’ of ‘the true market’, which could actually exist only in the absence of capitalism. The nature of the true market defies the concentration of economic power at the hands of the privileged few. Therefore, the true market is essentially *non-capitalist* in the sense that it works on reciprocity of needs and an egalitarian diffusion of economic power among the market participants. However, the true market has been almost never allowed to function on its own would-be objective rules. Capitalists have always achieved to act as ‘unlimitedly flexible’ economic agents so as to deflect the market processes in accordance with their privileged interests. Consequently, capitalists have been able to accumulate economic ‘vested interests’ at the level of the world-economy over the *longue durée*.

We prefer to focus upon capitalism in terms of *not* its specific ‘mode of production’, but its specific *mode of exchange* upon which it survives and flourishes. In the context of this conceptual domain, capital-labor relations are not our decisive unit of analysis in revealing the endogenous contradictions of capitalism, even though we by no means deny the significance of such relations. Our thesis relies on the idea that the relationship of capitalism to ‘the market’ and ‘the state’ forms a fertile ground on which to examine the contemporary world capitalism by means of a critical perspective directed at the global governance model. Hence, we will conceptualize the inherent contradictions of capitalism in terms of its relation to ‘the market’ and ‘the state’. We will try to demonstrate that capitalism as an all encompassing world-system is prone to generate a *disharmony* between its major ‘economic’ and ‘political’ institutions. Hence, we define capitalism as an ‘innovative’ system, which incessantly reproduces an ‘artificial dichotomy’ between ‘the market’ and ‘the state’. The irony is that capitalism cannot dispense with either ‘the market’ or ‘the state’. Insofar as capitalism innovatively creates such an antagonism between ‘the economic’ and ‘the political’, it is paving the way for its own collapse over the *longue durée*. This hypothesis of ours will be clarified step by step towards the

end of this study. For the time being, it suffices to say that our thesis is all the more substantial in the face of the contemporary ‘governance model’, which can be interpreted as an *ultimate* effort directed towards the eradication of the ‘market-state dichotomy’ once-more-and-for-all.

In the beginning, we should also explain some specific phrases that we use frequently along the thesis. One such phrase is ‘the state as we know it’. We make a distinction between the pre-governance and post-governance periods in the history of capitalism. As such, ‘the state as we know it’ simply corresponds to ‘the state before governance’; that is, the state before the 1990s (when ‘governance’ as a concept and model came under the rubric of the Post-Washington Consensus). Along with the 1990s onwards, we have ‘the state of governance’ as the main objective of a global project. We argue that ‘the state of governance’ is completely different from the ‘liberal state’ of the nineteenth century and the ‘social state’ of the Keynesian Golden Age; both of which correspond to our category of ‘the state as we know it’. We hope that our intention in using this phrase will be clear towards the end of third chapter on ‘governance’.

Secondly, we also frequently make use of the phrase ‘commanding heights of the world-economy’, which also needs some explanation in the beginning. This is, indeed, a phrase originally used by Fernand Braudel to distinguish the (true) market participants from the (true) capitalists. At world-economy level of analysis, ‘commanding heights’ do not simply mean the owner of the means of production. Of course, the ‘commanding heights’ as a categorical term may own some means of production and exchange, but this is not their distinctive characteristic at world-economy level of analysis. Indeed, the ‘commanding heights’ are best defined as the holders of *both* economic and political power, which they acquire and maintain by way of their *privileged* connections with international markets and nation-states. In this sense, they have the power to influence ‘the market’ by making use of ‘the state’. They earn oligopolistic/monopolistic profits from large-scale production and exchange of

goods, services and financial capital. Transnational corporations constitute a good example to the contemporary ‘commanding heights of the world-economy’. But they do not command directly. They make use of the inter-state system to influence the world markets in accordance with their priorities. The contemporary inter-state system comprises also international economic organizations such as the World Bank, the IMF, and the World Trade Organization; and transnational establishments such as the United Nations and the European Union. It is a well-known fact that governments of advanced capitalist countries have a non-proportional power to influence the policies adopted and dictated by these organizations and establishments, on which, thus the transnational corporations have an indirect but decisive influence. Hence, for us, the policies of these organizations and establishments constitute a good ‘proxy’ to reveal the priorities of the transnational corporations. Therefore, by the phrase ‘commanding heights of the capitalist world-economy’ of our times, we basically mean the ‘cream’ of the capitalist class *plus* the World Bank, the IMF, the WTO, etc. We hope that our intention in using this phrase will be clearer after the discussion of our perspective of ‘Institutional International Political Economy’ (IIPE) in the fourth and fifth chapters.

Thirdly and finally, we should also mention a few preliminary words regarding what we mean by ‘society’ (*vis-à-vis* capitalism). In our perspective of ‘Institutional International Political Economy’, ‘the social’ is defined in terms of the ‘embeddedness’ of ‘the economic’ and ‘the political’, whereas capitalism is ‘the anti-social’. We will try to demonstrate that capitalism has an inherent tendency to distort the embeddedness of economic and political life of society. There is society on the one side, and capitalism on the other. The latter simultaneously thrives on and distorts the cohesion of the former. This is the fundamental contradiction of capitalism as we conceptualize it. Again we hope that all this will be clearer after the submission of our IIPE-perspective.

In this construction, the present time is paralyzed by the *radically liberal* governance project as an apparent obstacle for ‘reclaiming development’. Under

these circumstances, conventional heterodoxy, at best, may be calling for developmental paths that had already been worn out at many places for many times. This is all the more unfortunate since we live at a time when the state-as-a-regulatory-institution is rapidly losing its ‘social’ capabilities. Therefore, the heterodoxy has to pay much more attention to understand the essence of ‘governance’ in order to avoid the possibility that state-led policy proposals can remain ineffectual in the predictable future. The myopic research agenda on the part of the heterodoxy is bound to become obsolete, unless the radical ‘governance ideology’ is seriously taken to be the mature phase of a liberal counter-revolution. And, we should take the lessons of history well. State-led alternative policies for development cannot yield permanently ‘social’ consequences, unless a non-capitalist *institutional matrix* is reclaimed at the level of the world-economy. Anti-liberal energies should be concentrated upon this formidable task.

Let us now summarize our thesis. The reader had better keep this summary in mind while reading the following two chapters on ‘development’ and ‘governance’.

‘Reclaiming development’ has never been more formidable throughout capitalist history than in the present century. To assess the validity of this statement, it seems a good idea to focus on a recently published heterodox book as a spring-board: *Reclaiming Development: An Alternative Economic Policy Manual* (Zed Books, 2004). The authors are two distinguished development economists; namely, Ha-Joon Chang of Cambridge University and Ilene Grabel of the University of Denver. In their book, the two authors not only refute ‘market-oriented’ policies convincingly, but also compile a rich set of ‘state-led’ alternatives that can yield sustainable and equitable development. At this point, let us have a quick look at three important concluding remarks made by Chang and Grabel (2004: 203-4). Along the way, we will also express our own responses to these remarks.

First, in concluding their book, Chang and Grabel accept the apparent difficulty in implementing their alternative policies under contemporary circumstances:

We are well aware that even our most sympathetic readers might respond to this book by reminding us that the changing rules of the global economy over the last quarter of a century have made some of the alternative policies that we discuss difficult (or even impossible) to implement in developing countries (Chang & Grabel, 2004: 203).

Our first response to Chang and Grabel is as follows: The rules of the ‘global economy’ have been incessantly changing for many centuries, and not merely for the last 30 years or so. Those rules constitute the institutions of *capitalism-as-a-historical-world-system*. Under this system, the ‘rules of the game’ have changed, more often than not, at the expense of the developing world.

Secondly, Chang and Grabel (2004: 203) do not deny that the IMF, the World Bank and the WTO introduce severe constraints on the developmental efforts of the developing world. Then, they argue that it would be incorrect to behave as if the power and influence of these organizations were absolute and unchangeable. Our response to Chang & Grabel is as follows: So, it is unambiguous that there is a need to challenge the power and influence of international economic organizations, which, indeed, constitute the commanding heights of the capitalist world-economy at present. Just a few pages ago, we defined the ‘commanding heights’ in terms of their distinctive ability to manipulate ‘the market’ by utilizing ‘the state’. This means that the ‘commanding heights’ possess the power to avoid and deflect alternative policies for state-led development. If so, merely proposing state-led policies may remain totally ineffectual, especially at a time when the neoliberal orthodoxy has been undermining the policy-making capability of ‘the state’ by dictating a so-called ‘governance’ model from the 1990s onwards. More pertinent ways and means should be sought so that the power and influence of these organizations can be directly challenged.

And finally, Chang and Grabel (2004: 204) argue that many of the alternative policies that they propose “can be employed *even without radical changes in the global environment*”. Our response to Chang and Grabel is as follows: Such state-led alternative policies may not work *vis-à-vis* the global ‘governance’ model. This model is likely to serve to a *radical capitalist ideology*. Nowadays, the orthodoxy may be, consciously or unconsciously, undertaking a *radical institutional revolution*. Hence, such a radical project cannot be duly challenged by non-radical changes in the global environment. These are our critical assessments as to the concluding remarks made by Chang and Garbel.

Let us now turn to ‘governance’ in a nutshell.<sup>4</sup> During the 1980s, the so-called Washington Consensus basically relied on a dichotomy between ‘the state’ and ‘the market’. The role of the state in the economy was to be minimized so that all economic affairs become the task of ‘efficient’ market processes. This neoliberal recipe has been applied by many developing countries, ultimately resulting in economic crises during the 1990s. However, the *practitioners* of the Washington Consensus have continued to put the blame on the state. Their new contention is that ‘the state’, whether minimized or not, is a wasteful and inefficient institution in its conventional entity. This is the essence of the so-called Post-Washington Consensus.<sup>5</sup> In the meantime, the World Bank has

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<sup>4</sup> All the discussions in this and the next paragraph will be elaborated in the third chapter on ‘governance issues’, where we will also provide the pertinent references.

<sup>5</sup> Interestingly enough, the well-known originator of the term ‘Washington Consensus’, namely John Williamson of Institute for International Economics – an international think-tank located in Washington, D.C – has come to criticize the *practitioners* of the Consensus. As the originator of the term, Williamson has accentuated the difference between the Washington Consensus that he had originally set forth *and* the policies actually dictated by the Bretton Woods institutions (IMF and the World Bank) especially after the mid-1990s. Indeed, Williamson (2004a: 1) argues as follows: “The Washington Consensus as I originally formulated it was not written as a policy prescription for development: it was a list of policies that I claimed were widely held in Washington to be widely desirable in Latin America as of the date the list was compiled, namely the second half of 1989”. Williamson dissents from the divergence between his original agenda and the meanings later-attached to this agenda. His contention is that the original Consensus as he had formulated had two major differences with respect to the policies of the 1990s as especially dictated by the IMF. First, the IMF uttered the countries to implement one of the two extreme exchange rate regimes from the mid-1990s onwards (at least until the 2001-crisis in Argentina): Either float exchange rates ‘cleanly’ or fix them firmly by currency boards. This approach to exchange rate policy is known as the ‘bipolar doctrine’ and did not take place in Williamson’s version of the original Consensus, which instead suggested a mix of floating and fixed exchange rates in the form of an intermediate regime. Secondly, the IMF urged the countries to liberalize their capital accounts,

fashioned ‘governance’ as a new concept, and ‘governance’ has become a catch-word, which is frequently encountered in the publications and staff papers of the OECD, European Union, United Nations, the IMF, etc. And, the notion of ‘good governance’ has been a standard recipe in the language of the World Bank since the 1990s. By the term ‘good governance’, the World Bank implies ‘good public institutions’, and these good institutions entail six basic items on the new developmental agenda: i) Voice and Accountability, ii) Political Stability and Absence of Violence, iii) Government Effectiveness, iv) Regulatory Quality, v) Rule of Law, and vi) Control of Corruption.

As one can easily notice, all these are really ‘good’ things; they are ‘good’ by definition and construction. Besides, in order to ‘measure’ these ‘good institutions’, the Bank has also generated a rich data-set of ‘governance indicators’. Using this data-set, some empirical studies have already ‘proven’ that ‘good governance’ is good for development! That is to say, ‘governance’ is a very ‘benevolent’ scheme as defined and constructed by the World Bank. Within this *positive* context of definitional and constructive endeavor, one is forced to accept that development is possible only by means of maintaining ‘good institutions’. In other words, ‘good institutions’ constitute *the only way* for developmental success. Moreover, this is taken to be a matter of unidirectional causation. The important hypothesis of whether developmental success is a precondition for ‘good institutions’ is either totally overlooked or ‘statistically’ rejected by the use of ‘immature’ data. At this point, we would

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whereas Williamson’s version of the original Consensus suggested the limitation of liberalization of capital flows, especially in the case of foreign direct investment. As such, Williamson rejects the views that associate his version of the Consensus with neoliberalism or market fundamentalism (Williamson, 2002, 2004a, 2004b). He also attributes the East Asian crises of 1997 to IMF’s divergence from the original Consensus. In this regard, there is an apparent parallel between John Williamson and Joseph E. Stiglitz. After leaving his leading post at the World Bank and as the 2001-laureate of the Nobel Prize in economics, Stiglitz has become a critic of neoliberal globalization as handled by the Bretton Woods institutions. Stiglitz (2002) has criticized the Bretton Woods institutions for representing the interests of advanced industrial countries (most notably, of course, those of the US) and attacked these institutions for dictating a far-reaching pro-marketism that ignores the need for managing ‘the market’ and ‘the state’ together. He also accused the IMF-policies for leading to the East Asian crisis. In this connection, even though Williamson (2002) also dissents from Stiglitz’s usage of the term ‘Washington Consensus’ as identified with neoliberalism or market fundamentalism, the two authors seem to share the view that the Bretton Woods institutions suggested *wrong* policies especially from the mid-1990s onwards.

like to draw the attention of the reader to the similarity between the Washington Consensus of the 1980s and the Post-Washington Consensus of the post-1990s: In both cases, “there is no alternative”. Just as market-oriented *policies* were dictated as the only choice during the 1980s, market-oriented *institutions* are nowadays being dictated as the only solution for developmental issues.

The seemingly benevolent idea of ‘governance’ as manifest in the need for ‘good institutions’ is an orthodox attempt that aims at deflecting the developmental agenda for the sake of maintaining capitalistic interests at world scale. This contention of ours will become clearer step by step towards the end of this study. It seems to us that the Bank’s attitude towards ‘governance’ does not involve an objective thinking of developmental issues in the context of the capitalist world-economy. Hence, one of our aims is to cast suspicion on ‘governance’. To do so, we will utilize a critical perspective of institutional international political economy (IIPE).

We will construct our IIPE-perspective by making use of the works of five social scientists: First, Friedrich von Hayek as an ultra-liberal political economist; then, Karl Polanyi as an interdisciplinary social scientist; and then, Joseph Schumpeter as a thought-provoking economist. As such, we will question the viability of ‘purely’ economic social systems by having recourse to the theoretical contributions of Geoffrey Hodgson, who can be regarded as one of the most prominent circulators of the contemporary version of Original Institutional Economics. Finally, we will utilize the extraordinary economic historiography of Fernand Braudel, who was one of the most controversial yet influential economic historians of the twentieth century.

Hayek is a good starting point to understand the implications of ‘governance’. For Hayek, the market is an extraordinary institution, which emerges spontaneously and *thus* functions efficiently. Indeed, the link between ‘the spontaneity’ and ‘the efficiency’ of socio-economic institutions has always

been a tenet of liberal economic thought. In this connection, ‘superiority of spontaneity’ is a crucial Hayekian notion, which, at the same time, implies the ‘inferiority of human design’, and thus the banality of economic planning and state intervention. Moreover, for Hayek (1944), ‘individual liberty’ can be maintained only within the context of a spontaneous market order. This is the basic reason why Hayek was so inclined to present a ‘self-regulating market system’ as a first-best model for the functioning of all other institutions.

A self-regulating market system may be conducive to the maintenance of economic and political liberties at the level of the individual. However, this liberal view overlooks the ‘social dislocations’ generated by self-regulation itself. For instance, in his now-classic book, *The Great Transformation*, Karl Polanyi (1944) comes with a critique of the nineteenth-century England, where the idea of a self-regulating market was attempted for the first time. Polanyi regards this period as the ‘nineteenth century civilization’, where markets for land, labor and money were created and maintained – supposedly in a manner free from state intervention and planning. This was the essence of the broader construct of a self-regulating market system. This spontaneous system was supposed to distribute economic power impartially by providing all market participants with informative price signals. By observing those signals, everybody was ‘free’ to decide how much to save and consume, and invest and produce. This roughly corresponds to what Hayek basically meant by the maintenance of individual liberties within a spontaneous market order. However, as Polanyi demonstrated in great detail, such spontaneity had socially destructive outcomes as well. Self-regulation was self-defeating since it separated the political domain from the economic processes. Here, Polanyi’s rationale is that society as a whole can exist and survive only by way of a ‘symbiosis’ between political institutions and economic processes. If the economy is refined from ‘the state’, ‘the market’ starts to subjugate society. However, survival of society requires that the economy be embedded in social life. And, this *embeddedness* can only be maintained by protecting the

symbiosis between the political institutions encompassed by the state and the economic processes encompassed by the market.

In institutionalist economic theory, this ‘symbiosis’ has also been considered as the survival condition of socio-economic systems. In his seminal works, Geoffrey Hodgson (1984, 1988, 1999, 2001a, 2001b) has theorized socio-economic systems in terms of two social-scientific principles; namely, the ‘impurity principle’ and the ‘dominance principle’. These two principles together postulate that socio-economic systems exhibit a dominant and dynamic economic structure, whereas the survival of socio-economic systems relies on the maintenance of non-economic impurities<sup>6</sup>; that is to say, political and cultural institutions, which hold the system in solidarity. Once the system tends towards economic purification, it paves the way for its self-destruction. In this regard, the liberal ideology envisages a false dichotomy between the market and the political institutions. In almost all variants of liberal economics, individuals and the market are free and autonomous, whereas institutions restrict this freedom and autonomy. That is to say, liberals conceptualize political institutions as *unnecessary* ‘impurities’ that prevent the spontaneous

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<sup>6</sup> As we will see in section 5.1, Hodgson has developed the principles of impurity and dominance as an extension of the so-called ‘systems perspective’ that “became more and more fashionable in the 1950s and 1960s” (Hodgson, 1988: 18) in the context of natural sciences. Hodgson (1988: 19) explains his premise as follows: “What is being suggested is, broadly and simply, a view of the economy that is system-wide in that it embraces both tastes and technology, and in that it is an open system with respect to the natural world”. Among his sources of inspiration, there are: i) Bertalanffy’s (1950) conception of ‘open systems’ in physics and biology, and ii) Ashby’s (1952, 1956) ‘law of requisite variety’. Principles of dominance and impurity are derivative of this ‘systems perspective’ in the sense that the existence of ‘non-economic impurities’ within an ‘open’ socio-economic system is not merely a ‘possibility’; indeed, it is a ‘necessity’. That is to say, the ‘variety’ provided by non-dominant non-economic impurities is a survival condition for socio-economic systems. In this regard, we should distinguish between Hodgson’s framework of analysis and ‘the modes of production debate’ that took place in the 1970s (Foster-Carter, 1978). In the context of this debate, the ‘possibility’ (rather than the ‘necessity’) of the ‘variety’ of modes of production was being discussed; whereas Hodgson emphasizes ‘variety’ as a pre-requisite for the sustainability of socio-economic systems. Hence, it is more reasonable to think of Hodgson’s development of principles of impurity and dominance as the by-product of the ongoing interaction between natural and social sciences. For instance, the ‘new science debate’ in physics in the form of a dissent from the dominance of classical-Newtonian view of the world should have had a formative influence on Hodgson’s institutionalist critique of neoclassical orthodoxy in economics. In line with the new science debate and its reflections on economics (Georgescu-Roegen, 1971; Prigogine & Stengers, 1984; Clark, 1992), Hodgson accentuates the need for analyzing ‘complexity’ rather than ‘simplicity’, ‘processes’ rather than ‘equilibrium’, ‘open systems’ rather than ‘close systems’, etc.

operation of the market. However, alongside their restrictive functions, institutions do have other indispensable tasks. Institutions are widespread habits of thought and ways of doing things, which connect the past to the future. Thus, the continuity of a socio-economic system relies on the existence and complexity of a variety of institutions, which serve as breaks to the far-reaching dynamism and destructive proclivity of the market. Hence, any socio-economic system is bound to collapse, unless the market-led operation of the dominant economic structure is mitigated by the impurities provided by political institutions.

In his well-known book, *Capitalism, Socialism and Democracy*, Joseph Schumpeter also adopts the same line of institutional reasoning. Even though he does not specifically refer to a self-regulating market system, Schumpeter does not fail to identify the far-reaching dynamism of the economic domain of capitalism. In economic terms, capitalism is very successful, dynamic and innovative so as to adapt to fast changing circumstances. This is, indeed, what Schumpeter means by ‘creative destruction’. However, for Schumpeter, the political and cultural domain of capitalism is not that much dynamic and adaptive. Indeed, it is possible to deduct from Schumpeter’s analysis that capitalism is creatively destructive only in the economic domain. Insofar as the political domain is concerned, a process of “uncreative destruction” prevails (Özveren, 2000). Put differently, the political institutions and cultural values of the past are being dismantled by the over-dynamism of the capitalist economy. This is Schumpeter’s chief reason behind his prognosis that capitalism is bound to collapse.

Writing during the Second World War, both Polanyi and Schumpeter reached the same conclusion that an entirely new socio-economic order was in the making. Collective action would replace the self-regulating market system, which had entailed as well as required the ‘freedom’ of ‘the individual’. But, a retrospective analysis of the past sixty years reveals that the prognoses of Polanyi and Schumpeter have not yet come true. It is true that, in the post-war

period until the 1970s, planning and the idea of welfare and developmental states were predominant. However, this was clearly less than what Polanyi predicted. That was merely a ‘quantitative’ decrease in the role of ‘the market’ rather than a ‘qualitative’ systemic change. Capitalism did not collapse in the mean time. Also, more time is needed for Schumpeter’s prognosis to come true. Therefore, despite the impressiveness of their diagnoses about the market economy and capitalism, the prognoses of Polanyi and Schumpeter seem to have somewhat failed in terms of full materialization. So, what went wrong that these predictions have not yet come true? It is in this connection where we had better turn to Fernand Braudel – the ‘Pope of History’ as the French dubbed him.

A quick look at the essence of Braudel’s analysis will suffice for introductory purposes. For Braudel (1981, 1982, 1984), capitalism and market economy are not only different from each other, but also *exact opposites*. The market economy is a “transparent zone” characterized by *free and fair competition*, whereas capitalism is a “shadowy zone” stigmatized by *speculation and monopolization*. Capitalism prevails as the zone of the *anti-market*, where “the law of the jungle operates”. In Braudel’s words, “today as in the past, before and after the industrial revolution”, this ‘almighty’ zone is the “real home of capitalism” (Braudel, 1982: 230), which has survived as the enemy of ‘the market’. At these “commanding heights” of the world-economy, capitalists – the privileged few – have always held the keys to long-distance trade, complex communication networks, and large-scale businesses, to which the majority of society has had no access. In addition, Braudel’s analysis is indicative of the impossibility of ‘pure’ *laissez-faire*. At this point, “Let them do, let them pass” may well be interpreted as “Let capitalists stampede over the market as they please”. If capitalist interventions to the market are not controlled, then capitalists tend to give up competing, and engage in speculative and monopolistic practices. *Laissez-faire* is supposed to promote competition, but competition can only be maintained by protecting ‘the market’ from capitalism. However, capitalists have always managed to get rid of control and

competition through a coalition with ‘the state’. As such, capitalists were repeatedly successful in bending the ‘would-be’ efficient rules of the market. Under these circumstances, market system under capitalism has hardly translated individual self-interests into socially beneficial outcomes. In contrast, it has usually implied the maintenance of capitalistic privileges.

Equipped with this snapshot of Braudel’s analysis, we can now return to the prognoses of Polanyi and Schumpeter. When Braudel’s viewpoint is incorporated, Polanyi’s conception of the ‘self-regulating market system’ can be re-interpreted as the ‘capitalist-regulation’ of ‘the market’ and of ‘the state’, *and hence of society*. The degree of capitalist-regulation reached its historically maximum level during the nineteenth century at a time when ‘the capitalists’ were experiencing speculation-and-monopolization, for the first time, in *production*. As Braudel insisted, capitalism was, in fact, “away from home” when the “machine process” rendered it possible to extract huge profits from production. Nonetheless, capitalists were extremely ‘artful’ in deflecting their own ‘alienation’ onto land, labor and money – Polanyi’s “fictitious commodities”. And they did so by a strong coalition with the state. This retrospective scheme accords well with Polanyi’s thesis that the construction and the maintenance of the ‘self-regulating market system’ became possible thanks to the regular interventions of ‘the liberal state’. From this point of view, one can argue that, after the Second World War, capitalist interests continued to distort ‘the market’. Those were the times when the idea of state-led welfare and development policies served the needs of not only the developing world, but also the ‘Great Powers’ in the world-economy. On the other side, Schumpeter may have underestimated the institution-building capacity of capitalism, while strongly emphasizing its creative capacity in the economic domain. The capitalist influence on state mechanisms and market processes may have enabled capitalism “to direct and control change in such a way as to preserve its hegemony” after 1945 as well. In Braudel’s words, the “essential feature of the general history of capitalism” is “its unlimited flexibility, its capacity for change and *adaptation*” (Braudel, 1982: 433). This

capacity for adaptation to systemic changes must have prevailed not only within the economic domain. The influence of capitalists in the political domain must have been also so decisive that capitalism could survive during the post-war period. In a similar vein, nowadays, commanding-height capitalists seem to be preoccupying themselves with ultra-liberal efforts to build completely new ‘institutions’. While destroying the conventional structures of the state, they are simultaneously constructing a new institutional order in the name of ‘governance’.

At this point, let us now engage ourselves in a kind of mental exercise projected towards two possible scenarios for governance. First, in terms of the separation of ‘the economic’ from ‘the political’, neoliberalism of the 1980s was more or less analogous to what had happened in the nineteenth century. Hence, the following crises of the 1990s may be attributed to the destruction of the ‘symbiosis’ between ‘economic’ and ‘the political’. As such, ‘governance’ may be somewhat positively interpreted as an attempt to re-maintain that symbiosis, without which the social whole cannot survive. Indeed, the idea of governance envisages the involvement of non-governmental organizations and agencies of civil society within all processes of politico-economic decision-making. If ‘governance’ is actually an attempt to re-maintain the required symbiosis between ‘the economic’ and ‘the political’, then capitalistic regulation of society may be eventually mitigated in the course of time during the twenty-first century. However, we must be cautious about the secular proclivity of capitalism to destroy the symbiosis-under-consideration. From this point of view, which we will clarify in the pages that follow, this first scenario on ‘governance’ may remain too optimistic.

At the international level, ‘governance’ entails the dictations of forceful organizations, such as the IMF, the World Bank and the WTO. Backed by the political and military hegemony of the United States, all such organizations constitute the ‘commanding heights’ of capitalism at present. In this broader framework, governance may imply the dictation of a ‘self-regulating’ global

economy as a model for all institutional possibilities, as Hayek had envisaged. As such, self-regulation at global level is most likely to mean the maintenance of capitalist-regulation of the world-economy.

Neoliberalism of the 1980s had tried to impose ‘the market’ from the bottom by dictating *good liberal policies*. As such, Washington Consensus had not gone beyond targeting the ‘quantity’ of the state. However, in the context of the ‘new liberalism’ of our times, ‘governance’ implies the dictation of *good liberal institutions*. The critical point is that ‘institutions’ are not like ‘policies’. Given an existing institutional framework, policies can be altered and then reversed over the course of time within a particular space. This, indeed, corresponds to a short history of the world-economy in the past sixty years. ‘State-led’ and ‘market-oriented’ policies prevailed, respectively, during the first and second halves of that period. In the meantime, merely ‘quantitative’ changes have been experienced in terms of the roles of ‘the state’ and ‘the market’. Core institutional properties of these two institutions have largely remained intact from 1945 to the 1990s. However, the liberal milieu of our times seems to be flying towards a distinctive turbulence zone. An ‘institutional revolution’ may be in the making, which is new, radical, liberal and orthodox in nature. That is to say, Post-Washington Consensus in the name of ‘governance’ may be nowadays targeting ‘the quality’ of the state rather than its ‘quantity’. Once institutions are altered, they cannot be reversed back as easily as polices. Hence, it is a possibility that ‘governance’ is a ‘veil’. It may serve as a last resort to make capitalism survive by way of imposing ‘self-regulation’ from the top. In other words, global forces may, once again, operate so as to direct and control change to preserve capitalistic privileges. As such, ‘governance’ may well convert the already weak nation-states into sub-processes of the market in the course of time during the twenty-first century.

Hence, this orthodox model may be a real threat to the developmental possibilities as envisaged by the heterodoxy. Once the market processes of global governance replace the conventional structures of *state-led policies*, ‘the

state' will have lost its ability of policy-making. Since the 1980s, neoliberal orthodoxy has already paved the way for weakening the conventional structures of the state. It has already formed a fertile ground on which to establish new institutions of governance. And, it did so by dictating a 'market-state dichotomy'. In the meantime, the heterodoxy could not challenge significantly this 'orthodox revolution'. Rather, it continued to propose state-led policies, as if 'the state' were remaining intact as a regulatory institution. And worse, heterodox proposals of state-led policies as opposed to market-oriented solutions have implied the acceptance of 'market-state dichotomy' as a premise. In other words, the heterodoxy seems to have accepted to play the game in accordance with neoliberal rules. As we briefly discussed above, the falsity of the market-state dichotomy of the liberal ideology can be revealed within the context of an IIPE-perspective. Unfortunately, the heterodoxy has also subscribed to this false liberal premise insofar as it tried to challenge the orthodoxy by means of state-led policy proposals. That is to say, the heterodoxy has chosen a wrong target of attack. In the context of our critical perspective that is to be developed in the following pages, we seek to show that *the real conflict is not between the market and the state*. In contra-distinction, *the real conflict is between capitalism and society*. Therefore, we insist that a truly heterodox challenge should properly target 'capitalism', if 'society' is to be protected duly.

This is a summary of our thesis, which can help the reader follow the arguments made in the rest of this study. In the second chapter that follows, we provide an epitome of development issues in the sixty-year period from 1945 to 2005. The reader should note in the beginning that this chapter is not intended for a thorough review of development issues. Indeed, development issues are largely discussed in terms of their connection to governance issues. We characterize the first half of the sixty year period after 1945 by the emergence of First, Second and Third Worlds along with the rise of Structuralist School, Modernization Theory and Dependency Theory within the context of a statist paradigm of development. In contra-distinction, it is possible to identify the latter half of the

same period with the rise of market-orientation rather than state-leadership. It is in this context that we discuss the rise and fall of Development Economics. In this chapter, there is also a critical emphasis on the ‘neostructuralist’ idea of ‘reclaiming development’ – the title of a heterodox book by Ha-Joon Chang and Ilene Grabel. In general, we admit that the arguments of Chang and Grabel are convincing insofar as they refute the neoliberal myths. However, we have some reservations as far as the usefulness of their alternative agenda is concerned.

In the third chapter, we submit a review of the global governance model of the contemporary *capitalist* orthodoxy (which is nowadays identified usually with the so-called Post-Washington Consensus or the ‘Augmented’ Washington Consensus). We are inclined to interpret ‘governance’ as a set of rigorous premises that eliminate the possibilities of ‘reclaiming development’. This, of course, casts some doubt upon the manageability of the alternative policies compiled by such heterodox economists as Chang and Grabel. In this chapter, we analyze ‘New Institutional Economics’ and ‘New Public Management’ as the major supporters of the concept and model of neoliberal ‘governance’. It is in this chapter where one of our claims becomes evident: First, ‘governance’ is an ultra-liberal radical project that aims directly at the ‘institutional essence’ of ‘the state as we know it’. Secondly, it is for the first time in capitalist history that the ‘commanding heights of the world-economy’ are attempting such a thing. Our conclusion is that such a radical effort is likely to yield self-defeating consequences on their part.

We start to develop our IIPE-perspective in the fourth chapter in order to maintain our critical interpretation of ‘governance’. After introducing the ‘building blocks’ of our perspective, we refer to the continuity between Carl Menger and Friedrich Hayek as two most prominent figures of the Austrian school of economics. In terms of their conception of ‘the market’ as a ‘spontaneous process’, this version of Austrian economics is well representative of the generic spirit of liberal economic thought. Then, we end this chapter by recourse to a robust critique of liberalism; namely *The Great Transformation* by

Karl Polanyi. As a prominent case of the secular combat between the orthodoxy and the heterodoxy, we describe a so-called ‘Hayek-Polanyi polarity’ in order to demonstrate that ‘institutionalism’ can serve as a powerful framework of analysis to refute the tenets of economic liberalism. The Polanyian concept of ‘embeddedness’ (of ‘the economic’ and ‘the political’) as the survival condition of socio-economic systems becomes our underlying principle in demystifying the mythical aspects of liberal economic thought.

The fifth chapter is built on the premises set forth in the fourth chapter. First, an institutionalist link is established between the Polanyian concept of ‘embeddedness’ and the Schumpeterian concept of ‘symbiosis’ by means of two social-scientific principles as developed by Geoffrey Hodgson: The principles of dominance and impurity. Polanyi’s case against the ‘self-regulating market system’ is reinforced by Schumpeter’s analysis of capitalism, which we find in his *Capitalism, Socialism and Democracy*. In both authors’ scheme of things, sustainability of social systems is a matter of the preservation of the coherence of ‘dominant’ economic processes and ‘impure’ politico-cultural institutions. As such, we develop a ‘Polanyi-Schumpeter rapprochement’ against the ‘Hayek-Polanyi polarity’ in order to put forward the idea of ‘harmony of disharmony’ (between economic processes and political institutions) as a necessity for long-run systemic sustainability. Secondly, we elaborate further the ‘Polanyi-Schumpeter rapprochement’ by incorporating a ‘global’ dimension into our analysis. We do so by means of the extraordinary historiography that we find in Fernand Braudel’s three-volume *Civilization and Capitalism*. At world-economy level of analysis, we pave the way for interpreting the ‘secular trend’ of capitalism as a historical world-system in terms of successive ‘double movements’ of ‘embeddedness’ and ‘disembeddedness’ that respectively correspond to the phases of ‘material expansion’ and ‘financial expansion’.

Along with our re-construction of an institutionalist perspective, we put a new face on ‘governance’. From this point of view, capitalist governance shows up as the enemy of the integrity of the economic and political life of society. We

summarize and clarify our thesis in the sixth chapter, in which we draw attention to two related possibilities. At the level of the world-system, the prospective success of the global governance model may well imply that: i) conventionally heterodox, state-led developmental policy proposals will remain futile in the face of the vanishing of ‘the state as we know it’, and ii) the rise of ‘the state of governance’ will spontaneously pave the way for the emergence of unintended possibilities, whereby re-defined and re-organized anti-systemic movements can put an end to capitalism-as-a-historical-world-system only if they combine their energies in a search for the ways of channeling governance towards the formation of a truly ‘social’ world.

## CHAPTER 2

### DEVELOPMENT ISSUES: FROM THE KEYNESIAN CONSENSUS TO THE POST-WASHINGTON CONSENSUS

#### 2.1. The Emergence of 'Three Worlds' after 1945

In the period roughly from the so-called Industrial Revolution to the First World War, the world economy had remained under the formative influence of classical liberal thought for about a hundred years. Adam Smith's appealing metaphor of the 'invisible hand' gave birth to a classical political economy characterized by a discernible liberal accent. The Smithian origins of classical political economy relied on the implicit axiom that economic growth/development was a matter of individual freedom. If individual economic agents were allowed to pursue their self-interests with no restrictive influence exerted by the state, free market forces would automatically tend to propagate well-being opportunities at social level. As such, the origins of the 'state-market dichotomy' can be traced back to the idea of 'invisible hand', which is a literal substitute for the 'price mechanism' of the market. If the state is not allowed to distort the free market prices of commodities and factors of production, the economy will regulate itself spontaneously and efficiently. Individual self-interests will be converted into unintended yet beneficial consequences at the level of society thanks to the state-free operation of the market. In the tradition of classical liberal economic thought, the works of such figures as David Ricardo and John Stuart Mill further enforced the case for individual freedom as a basis of self-generating economic success. Putting aside the distinctive

methodology of the neoclassical marginal revolution of the 1870s, the liberal dominance in the history of economic thought was well maintained by also the emergence of neoclassical economics. As far as the accomplishment of economic tasks was concerned, liberal philosophy remained to be the underlying premise of neoclassical economic thought, which was practiced to a considerable extent from the 1870s to the First World War: Let ‘the market’ do, put ‘the state’ aside.

The turbulent era of the inter-war period can thus be considered as an appropriate span of time to assess the ‘fruits’ of liberal economic thought and practice. When ‘the market’ was allowed to operate free from state regulation, the end result turned out to be a ‘great depression’ at the level of the world-economy. However, this was not the only unintended consequence of economic liberalism. If the war of 1914–1918 was then dubbed the ‘Great War’, the war following the Great Depression must be regarded as a ‘Greater War’, which could be brought to an end thanks to two atomic bombs!

The two atomic bombs not only marked the end of the Second World War, but also put a stop to the prevalence of liberal economic theory and practice, at least for the three decades that were to come. The Allied Powers immediately started to reshape the postwar world-economy just before they defeated the Axis Powers decisively. Indeed:

The ‘new’ international economic order which came into being after the war was not a spontaneous development. It was carefully planned, mainly by the governments of the US and the UK, while World War II was still in progress. It rested on the view that an expansion in the volume of international trade would be essential to the attainment of full employment in the United States and elsewhere, to the preservation of private enterprise, and to the development of an international security system (Glyn *et al.*, 1988: 28-29).

When the leaders of the Allied Powers (excluding the USSR) met at a hotel in Bretton Woods of New Hampshire in 1944, they had one major purpose in mind: Re-constructing the world order in such a way that the economic and political

disasters of the inter-war period would not be repeated again. The inter-war illness was diagnosed to be the balance-of-payments difficulties facing many countries. With such difficulties, countries were forced to implement protectionist trade policies culminating into trade pessimism and beggar-thy-neighbor strategies, which, in turn, led to crisis at the level of the world-economy. Hence, the need to support the countries with balance-of-payments deficits had become the major theme of the Bretton Woods conference. This was, indeed, the rationale behind the construction of the International Monetary Fund (IMF), which was to serve as the international ‘lender of last resort’ for those countries suffering from balance-of-payments difficulties. Besides, the ravages of the war in Europe had to be repaired. International Bank for Reconstruction and Development (IBRD), which is more commonly known as the World Bank, was established for this purpose. The remaining task on the way to re-creating a stable international order was to regulate the world markets so as to prevent the possibility of trade pessimism. This task was then carried out by the enactment of the General Agreement on Tariffs and Trade (GATT) in 1947. In addition, when the US government accepted to buy and sell gold at \$35 per ounce so as to facilitate the operation of the world markets, the Bretton Woods system of the Allied Powers was ready to function in conjunction with a ‘reliable’ Gold Standard. As such, the post-war period started with a general consent that the US would assume the leadership in the international economic system (Penrose, 1953; Scammel, 1983).

In this connection, we should not pass over two important facts that characterized the launch of the Bretton Woods system: i) The influence of the ideas of John Maynard Keynes – the leading economist of the age and the father of modern macroeconomics, and ii) The absence of USSR as one of the victors of the war. These two facts together indicated that the world was to be polarized into two domains; one characterized by ‘managed capitalism’ in accordance with Keynesian economics, and the other one supervised by the USSR in accordance with ‘state socialism’.

Keynes' influence on the founders of Bretton Woods system was not a twist of fate since his major thesis involved a persuasive solution to the problems created by 'laissez-faire capitalism'. Keynes basically challenged the classical liberal idea that the automatic price mechanism would ensure self-adjustment in the economy. For Keynes, 'the state' should assume an active role in regulating 'the market'. Otherwise, the recovery from market-led recessions would be too difficult, if not impossible. Keynes' ideas concerning the involvement of the state in the economy constituted a powerful attack to the liberal idea of 'state-market dichotomy'. Keynes' thesis involved a serious warning: If the state does not intervene duly, high levels of unemployment associated with depressions may persist for protracted periods of time. His solution was 'deliberate fiscal policy' to stimulate demand at times of economic slow-down. In the post-war period, almost all advanced capitalist countries, which established and maintained the Bretton Woods system, gave heed to Keynes' recipe for 'managed capitalism'. From then on, 'the state' started to re-assume a socio-economic role after a century of the pre-dominance of the 'self-regulating market system' followed by the two world wars and the Great Depression in between. The capitalist domain of the world constituted a so-called "postwar Keynesian consensus", whereby "the ingredient missing from earlier capitalism – an appropriate interventionist role by the state – was now in place" (Rapley, 2002: 9). Those advanced capitalist countries under the umbrella of the Keynesian consensus later came to be called as the First World.

However, one should not exaggerate the influence of Keynes on the construction of the Bretton Woods system and its implementation along the post-war period until the 1970s. Even though "[b]y the 1960s, policy makers everywhere were claiming to be Keynesian, most significantly perhaps in the United States" (Glyn *et al.*, 1988: 25), there remained significant differences between Keynes's proposals and the actual establishment and maintenance of the Bretton Woods system in general, and the IMF in particular:

[T]here were basically two plans for the proposed new monetary authority: the more liberal and expansionist Keynes plan put forward by the British side and the more

orthodox White plan submitted by the United States. In the end, the US plan carried the day and the result is an international monetary authority which has inherent in it a deflationary bias in that *it imposed most of the burden of adjustment on the deficit countries and relatively little or none on the surplus countries. The original Keynes plan envisaged a more equitable sharing of the burden of adjustment between the surplus and deficit countries; Keynes' conception of the IMF also involved an automatic mechanism for increasing international liquidity in accordance with the needs of world trade and world economic growth. These shortcomings in the actual institutional arrangements of the IMF became highly significant in the 1960s and 1970s. . .*" (Glyn *et al.*, 1988: 30, emphasis ours).

Indeed, for the sake of a kind of 'balanced growth path', Keynes favored 'saving' when the economy was booming, and 'spending' when the economy was stagnating. However, until late 1960s, capitalist world economies boomed along with a great deal of 'spending' directed towards welfare improvement.

On the 'socialist' domain of the world, 'the state' assumed a *completely* interventionist role in the form of Soviet-type central planning, which, by definition and construction, defied the existence of 'the market'. The absence of the USSR at the Bretton Woods conference meant the rejection of 'the market'. In other words, if the Allied Powers – led by the US – established the Bretton Woods system in order to resurrect capitalist world markets by means of 'the state', the USSR chose to utilize 'the state' to constitute a completely different world without markets. While the US was leading the Bretton Woods system to repair the damages of the war in Western Europe, the USSR was constructing a Second World out of Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania – previously Nazi-ravaged countries. Hence, the early post-war period was characterized by the first signs of a bi-polarity in the world economy and polity, which later came to be known as the Cold War between the First and Second Worlds, led by the US and the USSR, respectively.

However, the Blue Planet was not so small to contain merely the First World and the Second World. Over the planet, there were many other countries, which were the members of neither the First World nor the Second World. These countries, exhibiting the signs of neither advanced capitalism nor socialism, constituted the ‘Third World’ – a term that initially referred to socio-economically backward *and* non-socialist countries. Over time, in juxtaposition to the developed countries (DCs), ‘Third World’ came to refer to all ‘less developed countries’ (LDCs) irrespectively of their orientation towards the ‘socialism’ of the Second World (such as Burma, Cambodia, Cuba, Ethiopia, Laos, Mozambique, North Korea, Vietnam, and of course People’s Republic of China).

Many of the Third World countries were colonies of the imperial powers of the past. Some of them had gained independence in the early 19<sup>th</sup> century (such as Latin American countries), whereas most of them had to await the postwar period to do so (Fanon, 1965; Leites & Wolf, 1970). India got rid of the British rule in 1947, and this was a starting point. Thereafter, the colonial countries in South and Southeast Asia, the Middle East and Africa acquired their independence one by one. As such, colonization became history in the early postwar period. Along with the Latin American countries, the newly independent states constituted the bulk of the Third World. However, Third World countries soon realized that political independence meant almost nothing without economic independence.<sup>7</sup> They were poor and socio-economically backward. In general, they were identified with low per-capita-incomes, short life expectancy, weak educational attainment, large rural/agricultural sectors, and merely exports of primary products to pay for imports of manufactured goods (Rapley, 2002: 10-13).

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<sup>7</sup> It is interesting to note here that Karl Polanyi (1944: 163-165, 182-183) was one of the most accurate political economists who established a clear-cut link between the politically organized states of Europe and unorganized colonial peoples of the 19<sup>th</sup> century. The economic dependence of the colonial regions upon European governments and the lack of politically organized governments in the colonies were the two sides of the same coin.

Socio-economic backwardness was the common characteristic of all the Third World countries, which, thus, had to search for workable strategies for ‘development’. The sub-discipline of ‘development economics’ was born as an inevitable response to the backwardness of the Third World.<sup>8</sup> From the early post-war period onwards, development issues proved to be a hot subject of debate among academics and policy-makers. In juxtaposition to the Keynesian consensus in the First World and the *purely* state-led economies of the Second World, several attempts were also made to understand development from within and outside of the Third World. Along with the ‘state-led spirits’ of the age, reasons of socio-economic backwardness and solution possibilities were analyzed basically by the Structuralist School and Modernization theorists. We can regard these two research programs as the first variants of post-war development studies. Hence, in order to understand the contemporary development issues, it is always a good idea to start with Structuralist and Modernization schools with an eye to Dependency Theory.

## **2.2. Background of the Rise and Fall of ‘Development Economics’: Structuralism, Modernization, and Dependency in a Nut-Shell**

As a matter of fact, in discussing the structural backwardness of non-Western Europe *vis-à-vis* the Western Europe, P. N. Rosenstein-Rodan (1943) had already shown up as the harbinger of *structuralism* before the war ended. Socio-economic backwardness of the Third World *vis-à-vis* the First World had become a serious subject of debate within a decade. After the war, Raul Prebisch and Hans Singer, independently from each other, outlined the ‘North-South’ trade relations as a case of unfair exchange in favor of the First World and at the expense of the Third World (Prebisch, 1950; Singer, 1950). In line with Prebisch and Singer, Ragnar Nurkse (1961) put forward a structural distinction between “balanced and unbalanced growth”.

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<sup>8</sup> As a matter of fact, the harbinger of ‘development economics’ was the set of state-led developmental experiences of the inter-war period especially in East and Central Europe.

As far as the role to be played by ‘the state’ was concerned, the Structuralist School found a fertile ground on which to flourish. The Keynesian consensus of the age was conducive to the spread of structuralist thought and practice. As such, structuralism gained momentum along with the optimism coming from the state-led First World. For instance, W. A. Lewis (1954) backed structuralism in advocating the idea that ‘the state’ could play a functional role in the construction of national industries in the Third World, where there existed an important developmental advantage thanks to the abundance of cheap labor. ‘The state’ could transform this structural advantage into developmental success by means of industrial policy. Thus, it was generally and optimistically agreed that state-led industrialization would serve as an effective catalyst for development.

The so-called Modernization Theory, as the offspring of an American school of thought, came also out of this world-wide optimism. Taking the *status quo* between the First World and the Third World for granted, the Modernization School represented a *positivist* approach to developmental issues. Modernization analysis focused upon the determinant conditions that had yielded development in the First World. The absence of those conditions was regarded as the cause of socio-economic backwardness in the Third World. In his well-known book, W. W. Rostow (1966) conceptualized development as a homogeneous path, along which different countries had to pass through the same stages so as to end up obtaining the same reward – industrialization and economic development. For instance, scarcity of capital was a major difference of the Third World with respect to the First World. The First World had accumulated capital successfully during its initial stages of development. Hence, the Third World had to experience the same phase of capital formation by means of maintaining higher saving ratios. In juxtaposition to Rostow’s stage-oriented economic diagnosis, some Modernization theorists emphasized the importance of politico-cultural conditions for development (Almond & Powell, 1965; Apter, 1965; Weiner, 1966). In other words, capitalist values and institutions were absent in the Third

World countries, whose institutions lacked market-oriented motives.<sup>9</sup> In sum, the diagnosis of the Modernization Theory implied that socio-economic backwardness of the Third World was no more than “an initial state”:

The West had progressed beyond it, but other countries lagged behind. However, the West could help speed up the process of development in the third world, for instance by sharing its capital and know-how, to bring these countries into the modern age of capitalism and liberal democracy (Rapley, 2002: 15).

At this point, the Modernization Theory not only envisaged a linear and homogeneous path to development, but also favored a liberal-capitalist framework for development. Indeed, at a due time when academic circles were talking about the ‘end of ideology’, Rostow had regarded his own book as *a noncommunist manifesto* – in a sense, antedating Fukuyama’s (1992) contemporary thesis concerning “the end of history”. However, anti-liberal and anti-capitalist voices were immediately heard so as to negate the idea that the First World could help the Third World develop. The Dependency Theory, in the framework of an emerging neo-Marxist approach, started to attack the Modernization Theory. As such, the ideologies of liberalism and socialism once again proved to be the integral parts of politico-economic thought. As long as one of the two survived, the other one did not pass away. All in all, ‘ideology’ was not dead at all.

The background of Dependency Theory was developed by Paul Baran (1957), who rejected the possibility that the First World could serve as an example to and enhance the investment possibilities in the Third World. Towards the end of the 1960s, reactions to the Modernization Theory backed Baran’s thesis: It was maintained that the major cause of Third World’s socio-economic backwardness was the First World *per se*. The historical setting of the relations between the First World and the Third World relied on an imperialist hierarchy, which entailed the postwar division of labor between the two worlds. It had been and

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<sup>9</sup> At this point, we should draw the attention of the reader to the interesting *analogy* between this forty-year-old version of Modernization Theory and the contemporary governance model that we will discuss in detail in the next chapter.

was always in the interest of ‘the Core’ to maintain and subjugate a ‘Periphery’ – a cheap supplier of raw materials and a crowded market for finished products. This imperialist hierarchy at the level of the world economy constituted a powerful and structural obstacle on the way to development in the Third World. The Core deliberately prevented development in the Periphery by dictating a far-reaching competition to maintain low prices for primary commodities. Indeed, Baran had argued that the coalition between the imperial powers of the First World and the dependent bourgeoisies of the Third World prevented the development of local capitalism. Works of André Gunder Frank (1967) and Arghiri Emmanuel (1972) followed Baran’s arguments to constitute the so-called Dependency Theory, which we will discuss briefly in relation to Development Economics in the next section.

During the 1950s and 1960s, the ideas emanating from the Dependency Theory failed to become as theoretically and practically influential as the Structuralist School. Indeed, structuralism played a decisive role in the emergence and development of ‘Development Economics’ as a new sub-discipline, which did not fail to benefit from the Keynesian spirit of the times. In this vein, we will discuss the advance of ‘Development Economics’ in the next section as a coalition of structuralism and Keynesianism. Then, we will identify its decline with the world-systemic need for a capitalist transition from state-leadership to market-orientation.

### **2.3. The Rise and Fall of Development Economics: ‘Dependent’ Development under State-Leadership and Market-Orientation**

Even though ‘Development Economics’ (DE) as a new discipline started to gain ground after the Second World War, its birth can be associated with Paul Rosenstein-Rodan’s 1943 article on the developmental issues of Eastern European countries (Şenses, 1996b: 104).<sup>10</sup> After the war, DE became a dominant discipline in economics by focusing upon such long-term objectives as

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<sup>10</sup> For the emergence of ‘Development Economics’ and its early themes, see Şenses (1984b).

industrialization and structural change to be achieved by the Third World countries. The heyday of DE corresponds exactly to the so-called Keynesian Golden Age experienced all along the 1950s and 1960s. During this period, ‘state-leadership’ was adopted as the main ‘mode of regulation’ in economic affairs in both the advanced First World and the backward Third World. The First World countries implemented welfare policies and the Third World countries subscribed to developmental policies; both by utilizing the state apparatus. The period of Keynesian Golden Age was characterized by rapid increases in the volume of world trade associated with quite high growth rates across the First and Third World countries.<sup>11</sup> Interestingly enough, DE as a discipline started to experience a gradual and continuous loss of ground all along the 1970s in line with the deteriorating conjuncture in the world economy. The oil shocks of the 1970s culminated into a severe international debt crisis on the part of the Third World countries. From the late 1970s onwards, market-friendly neoclassical orthodox approaches, which had been criticizing DE since the late 1960s, started to gain dominance in economics in place of the Keynesian system and DE. In this regard, 1970s represented a period of transition in terms of three related fundamental changes: i) the Golden Age was over to give way to serious economic crises, ii) Keynesianism and developmentalism were over to give way to neoclassical neoliberalism, and iii) state-leadership in economic affairs was over to give way to the supremacy of market orientation. In the context of this ‘great transformation’, the rise of the so-called New Right<sup>12</sup>, all along the 1980s, wiped out the remnants of the previous period by means of the

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<sup>11</sup> For a thorough analysis of the Golden Age experiences of the advanced capitalist countries see Glyn *et al.* (1988). For the less-developed countries, see Hirschman (1968), Schmitz (1984) and Bruton (1970), all of whom focus upon the import-substitution experience since the Golden Age corresponded largely with that state-led strategy in the Third World. We will briefly discuss import-substitution below.

<sup>12</sup> The ‘neo-conservative’ governments that came to power in the US (Ronald Reagan) and the UK (Margaret Thatcher) mark the rise of the New Right in the late 1970s and early 1980s. New Right can be considered as a strange hybrid ideology in the sense that it is a synthesis of ‘conservatism’ and ‘liberalism’ – the hostile ideologies of the eighteenth and nineteenth centuries. That is to say, neo-conservatism associated with neo-liberalism makes up the New Right. At this point we should remind of the reader that ‘the orthodoxy’ in economics (as we defined in the beginning of our Introduction) comprises ‘pro-market’ schools of thought that directly back the New Right (such as the Virginia Public Choice School of James Buchanan and Gordon Tullock, the Chicago School of Milton Friedman, and the Austrian School of Friedrich von Hayek).

stabilization policies of the IMF and the structural adjustment programs of the World Bank. As such, the agenda of the Third World countries changed from long-term developmental objectives of industrialization, public investment and planning to short-term problems of external debt, public deficits and inflation. Eventually, the fertile ground of state-leadership on which DE flourished along with Keynesianism in the 1950s and 1960s was entirely lost to the ‘market fetishism’ of the 1980s. This is a short history of the rise and fall of DE as a discipline. In this section, we will elaborate this short history of the discipline along with the fundamental changes in the world economy witnessed in the post-war period.

We believe that an analysis of the rise and fall of DE can best be carried out in terms of its position *vis-à-vis* the neoclassical theory (NCT) and neo-Marxist approach (NMA) in the context of their attitude towards development issues. Indeed, this is what Hirschman (1996) does. In order to set forth the differences and similarities among NCT, DE and NMA, Hirschman uses two criteria: i) the postulate that economics is a ‘universal’ science with laws that are applicable to all countries at all times, and ii) the postulate that the economic relations between advanced countries and backward countries (First World and Third World – so to speak) yield mutually beneficial consequences for both sides. In this regard, Hirschman (1996: 25-26) categorizes NCT, NCT and NMT as follows: NCT accepts both of these postulates; DE accepts ‘mutual beneficialness’ and rejects ‘universality of economics’; and NMA rejects both. That is to say, NCT admits both the ‘universality of economics’ (as the case *against* the existence of socio-economic, political and institutional specificities in time and space-related specificities) and ‘mutual beneficialness’ (as the case *for* two-sided gains from international trade). DE relies on the idea that socio-economic differences, political and institutional specificities matter for the development of different countries, and that the Third World can benefit from international economic contacts with the First World. And, for NMA, neither socio-economic, political and institutional factors are neutral, nor economic contact with the First World can yield benefits for the Third World. This is a

very good summary of different attitudes toward developmental issues. In this regard, keeping this summary in mind, let us take a look at the development of DE.

As a consequence of the Great Depression of 1929 and the ensuing unsolvable difficulties of the 1930s, NCT had already lost considerable ground before the outburst of the Second World War. Indeed, Keynes's macroeconomic contributions in those years culminated into a so-called 'Keynesian Revolution' due to the insufficiency of NCT to overcome the severe unemployment problems of the times. Keynes's contributions constituted a 'revolution' in that he treated the neoclassical notion of 'full-employment' as an exceptional circumstance, and conceptualized 'unemployment' as the general case. Given that unemployment is the general case, self-adjusting market forces may not automatically put an end to the problem of unemployment; and hence (fiscal) state intervention is needed. This general Keynesian idea had important consequences for the rise of DE, which emerged out of the works by such figures as Kurt Mandelbaum, Paul Rosenstein-Rodan, Ragnar Nurkse, Arthur W. Lewis and A. O. Hirschman. Early development economists varied the Keynesian explanation of unemployment to be applied to rural societies, and focused upon 'rural underemployment' as the distinctive characteristic of Third World countries. A vicious circle of poverty was created under 'rural underemployment' conditions, and Third World countries could not break this circle with recourse to the market. But state intervention could help to do so (Hirschman, 1996: 30-31). That is to say, the emergence of DE as a separate discipline was directly influenced by the Keynesian Revolution. Both the Keynesians and the early development economists called for the use of interventionist public policies that were banned by the NCT. Just as Keynesians were proposing fiscal policy as a tool to cope with underemployment in the economy, development economists were accentuating the need for 'public investment planning' to activate the underemployed labor force for industrialization and development.

The notion of ‘underemployment’ was not the only connection where there occurred an affinity between the Keynesian system and DE. Also, the famous Harrod-Domar growth model as an extension of Keynesian macroeconomics influenced DE to a considerable extent. The Harrod-Domar model was initially developed for the context of industrialized countries, but then in the 1950s was widely adapted to the planning practices of the Third World countries. In this regard, the Harrod-Domar model envisaged the growth rates of countries as a function of their propensity to save and capital-output ratio. However, the Third World countries were not able to achieve the level of savings and stock of capital required for their developmental aspirations. Thus the implication was that there was a need for external resources (Hirschman, 1996: 37). In this sense, the Harrod-Domar model as applied in the context of the planning practices provided an implicit case for the idea that industrialized countries can contribute to the development process in the Third World by trade, financial transfers and technical assistance. As such, ‘mutual beneficialness’ of the contact between the First and Third Worlds was justified. This Keynesian-based justification of ‘mutual beneficialness’ then proved to be important in the debates on ‘late industrialization’, which was also related to the disputes concerning the ‘universality of economics’.

‘Industrialization’ had gained importance as a problem since the 1930s and throughout the Second World War. It was obvious that development was a formidable task and required intensive efforts to accomplish. As an indication of being ‘late-comer’ in industrialization, the Third World countries were able to produce only primary goods to be exported to the industrialized countries, from which they were importing manufactured goods. Under these circumstances, the only way to become like the developed countries was to industrialize. In this respect, several phrases were coined to denote the required efforts for industrialization: ‘Big Push’ by P. Rosenstein-Rodan, ‘Take-off’ by W. W. Rostow and ‘Great Spurt’ by A. Gerschenkron. In this respect, the industrialization experience of Europe in the nineteenth century turned out to be a subject of debate in the early 1960s. As we have already discussed in the

previous section, Rostow came with the idea that there were five stages of development that were identical for all countries. In this sense, Rostow's was a theory that backed the postulate of 'universality of economics'. However, Gerschenkron (1962) refuted this idea that industrialization process is repeated in any country along five given stages. Gerschenkron focused on the late industrializers of nineteenth-century Europe such as Germany and Russia to demonstrate their fundamental difference with respect to English-type industrialization. The difference was attributed to the intensive efforts of the late-comers to 'catch-up'. In short, the late-comers of Europe did not follow the English path to development. As such, Gerschenkron's work not only provided historical support for the opponents of 'universal economics', but also paved the way for the idea that there may be multiple trajectories to development. This was the point where DE reached as of the early 1960s. With this theoretical background, DE served as a state-led development framework adopted by the majority of the Third World countries. As the main factor lacking in the Third World, the state actively encouraged and directly established industries that were to produce the imported manufactures at home. This state-led strategy is well-known as import-substitution industrialization (ISI), which we will discuss in the following pages. However, let us first take a look at how NCT and the NMA responded to the rise of DE along the Golden Age.

On the one hand, DE generally tended to reject 'universality of economics' (thanks mostly to Gerschenkron, and despite Rostow). On the other hand, 'mutual beneficialness' of economic interaction between industrialized countries and 'late-comers' was generally accepted (thanks mostly to the Keynesian Harrod-Domar model).<sup>13</sup> In both these connections, attacks on DE had already started during the 1960s from both its 'right' and 'left'. NCT took the offensive not only for DE's violation of the principles of 'universal economics', but also (and most prominently) for 'misallocation of resources' arising from heavy state

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<sup>13</sup> The 'Big Push' (or 'Take-off' or 'Great Spurt') Theories also implied the need for external resources for industrialization and development. Indeed, the 'big push' (or 'take-off' or 'great spurt') was a matter of obtaining external resources since the Third World countries lacked domestically the necessary level of saving and thus the capacity to accumulate capital.

intervention backed by DE. NMA criticized DE on the ground that it did not take into account the new relations of ‘exploitation’ and the new ‘dependency’ patterns created by the contact between the First and Third Worlds. Let us now briefly examine these two reprobations simultaneously directed at DE.<sup>14</sup>

As a matter of fact, ISI as backed by DE had become a target of criticism as early as the mid-1960s at a time when the revival of classical liberalism was witnessed along with the ascendancy of neoclassical economics. Two contemporaries of Keynes were carrying the legacy of classical liberalism; namely, Friedrich von Hayek of the Austrian School and Milton Friedman of the Chicago School. On the one hand, Hayek was insisting on the classical liberal idea that self-interested behavior of free individuals would spontaneously and efficiently yield unintended yet beneficial consequences at the level of society. Hence, state-leadership should be replaced by market-orientation, which would provide the individuals with economic freedom. On the other hand, Friedman was drawing attention to the significance of tight monetary policy at times of inflationary pressures, thereby discrediting the instrumentality of Keynesian fiscal policy. Accompanied by the rise of such neoclassical figures as Jagdish Bhagwati, Bela Balassa and Anne Krueger, state-led and market-repressing ISI was being critically scrutinized in the name of a re-call for ‘the market’. The

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<sup>14</sup> In this regard, Hirschman (1996: 47) regards this double attack on DE as an “unholy alliance” between NCT and NMA, which he counts as one of the major reasons for the fall of DE as a discipline. Even though this is an interesting interpretation to account for the fall of DE, we believe that it overlooks one important internal inconsistency on the part of DE. In our point of view, DE was inconsistent in accepting the postulate of ‘mutual beneficialness’ to the extent that it rejected the postulate of ‘universality of economics’. In other words, if a research program rejects the idea that socio-economic and political institutions of countries are ‘neutral’ for development, then it must also reject the idea that economic contact between poor and rich countries is beneficial to both sides. Why did the poor countries find themselves in a situation of relative backwardness? Due to the exploitative nature of the previous contacts with the industrialized countries. And why were the previous contacts exploitative by nature? Due to the *relatively weak* socio-economic and political institutions on the part of the backward countries. Let us remember Karl Polanyi in this respect once more, who established a clear-cut link between the institutionally organized states of Europe and unorganized colonial peoples of the nineteenth century. The economic dependence of the colonial regions upon European governments and the lack of politically organized governments in the colonies were the two sides of the same coin (Polanyi, 1944: 163-165, 182-183). Hence, rejection (acceptance) of the ‘universality of economics’ necessitates the rejection (acceptance) of ‘mutual beneficialness’ for internal consistency. From this point of view, both NCT and NMA were internally consistent, whereas DE was not. Therefore, one should also count this inconsistency on the part of DE among the reasons for its eventual fall.

coalition between the revival of classical liberalism and neoclassical economics then took the form of a concerted attack on DE, which not only envisaged a big role for ‘the state’, but also put forward a ‘specific economics’ in the face of the specificities of the Third World *vis-à-vis* the First World. Liberalism rejected the economic role to be played by ‘the state’, and neoclassical economics relied on the premise that a ‘universal economics’ was valid in both the First and the Third Worlds. Development Economics being the parent of ISI, emergent neoclassical liberalism started to attack the shortcomings of ISI: Persistence of poor export performance, inevitable underemployment, creation of inefficiency and corruption, and heavy burden put on the agricultural sector (Rapley, 2002: 36-41). The ‘harbinger’ of the neoliberalism of the 1980s was an influential OECD study, according to which ISI had yielded self-defeating consequences in some of the Third World countries (Little *et al.*, 1970). It was argued and empirically demonstrated that ISI worsened balance of payments and income distribution, ignored comparative advantages, yielded capacity underutilization and corruption. The OECD study was then backed by consecutive studies (Balassa, 1971; Krueger, 1974), which equated the cumbersome state administration with misallocation of resources and rent-seeking behavior. With such seminal studies at the service of the ‘commanding heights’ of the world-economy, it was all the more easy to discredit state-led ISI practices as the main reason behind the ensuing debt crisis and chronic inflation in the Third World. Thus, on the eve of the construction of the Washington Consensus, the World Bank and the IMF openly gave heed to neoclassically liberal studies, which accentuated the case against protective trade policies and active industrial strategies (such as Bhagwati, 1982 and Krueger *et al.* 1974). One such study had even gone so far as to declare ‘the poverty of development economics’ (Lal, 1983). All in all, the anti-state coalition of the mid-1960s between classical liberalism and neoclassical economics had given birth to the so-called ‘neoliberalism’ in the late 1970s and early 1980s. From then on, ‘there was no alternative’ for the ‘debtor’ Third World countries other than comply with the ‘rules of the game’ set by the Washington Consensus.

NMA was on the other side of the “unholy alliance” against DE. In order to understand the NMA-critique of DE, let us first review the famous Prebisch-Singer thesis as the major tenet of the Structuralist School.<sup>15</sup> Typically, Third World countries were exporters of primary (or unfinished) products and importers of secondary (or manufactured) products. Prebisch (1950) and Singer (1950) had already observed that prices of primary goods had a constant tendency to decline relative to that of manufactured goods; implying that, over time, the Third World had to export more and more primary goods in order to be able to maintain their imports of manufactured goods from the First World. Such diagnoses, which came to be known as the notion of ‘declining terms of trade’, constituted the so-called Prebisch-Singer thesis. Industrialization in the First World was a case of concentration of capital, leading to relatively higher price-cost margins, whereas primary goods production was characterized by competitive pressures that keep profit rates low in the Third World. The problem was ‘the structure of the economy’ in the Third World, which happened to specialize in primary products rather than industrial goods. As long as the structural *status quo* in production patterns remained as it was, the Third World could by no means escape from relative socio-economic backwardness. Terms of trade would continue to decline at the expense of Third World countries, whose socio-economic position *vis-à-vis* the First World would never improve. Such a *status quo* between the Periphery and the Core could not be changed with recourse to ‘the market’. Involvement of ‘the state’ was considered to be indispensable to industrialization. Prebisch-Singer thesis gave birth to the so-called Structuralist School, which emphasized the need for state-led solutions to get rid of the ‘structural obstacles’ on the way to industrialization and development in the Third World.

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<sup>15</sup> For the emergence and development of Prebisch-Singer thesis, see Love (1980). For a review of debates on this thesis, see Spraos (1979, 1980). It is interesting to note here that structuralism along the Prebisch-Singer line initially influenced the advance of DE positively. DE was fed by the structuralist ideas all along the 1950s. However, later on, even the structuralists of ECLA criticized the ISI-strategy as of the mid-1960s (Prebisch, 1964; Tavares, 1964). Interestingly enough, the Prebisch-Singer thesis can also be considered as the ‘soft’ antecedent of the Dependency Theory, which criticized DE along NMA-lines.

However, in the context of the analysis of the Structuralist School, the ‘declining terms of trade’ at the expense of the Periphery were considered like a situation that seemed to be the consequence of bad fate rather than the result of deliberate manipulations of the Core countries. What the Prebisch-Singer thesis implied was that gains from trade could be distributed unevenly (or that a group of countries could gain nothing from trade). That is to say, the structuralist arguments did not go far as to say that the form of economic relations between a rich country and a poor country can imply a process of *de facto* exploitation (Hirschman, 1996: 41-42). It was Dependency Theory to argue in these neo-Marxist lines so as to direct a critique towards DE. With an effort to enhance the case for Baran’s arguments, which we briefly discussed in the previous section, André Gunder Frank (1967) became the founding father of Dependency Theory by conceptualizing ‘development and underdevelopment’ as two sides of the same and one capitalist system. Indeed, ‘development and underdevelopment’ were two mutually contingent consequences of *unequal exchange* (Emmanuel, 1972) between the Core and the Periphery. As such, David Ricardo’s theory of mutually beneficial international trade was rejected. As long as the Third World remained ‘dependent’ on the First World, surplus transfers from the Periphery to the Core would aggravate the poverty of the former and augment the affluence of the latter. Even though Dependency Theory in particular and NMA in general never became as workable as DE, they have nevertheless survived till our day.

Attacked by this double critique DE weakened theoretically. In addition to this, the ISI-strategy started to fail in the late 1960s in terms of delivering its developmental promises, and the Golden Age was also approaching to a halt in the meantime.<sup>16</sup> There was powerful pressure on the world-systemic conditions to change, as we will discuss. All in all, by the 1970s, DE found itself in an

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<sup>16</sup> In the face of these unfavorable theoretical and practical circumstances; it was, indeed, quite difficult to espouse DE in terms of its policy framework of industrialization and development. Interestingly enough, major support to protect and maintain DE did not come from its inaugural protagonists, but from an English Marxist; namely Bill Warren (1973, 1979) who backed DE with his reverent attitude towards the postwar achievements of industrialization and development in the Third World (Hirschman, 1996: 45).

irremediable position of loss of ground. The time to fall had come.<sup>17</sup> In this regard, the reasons of the fall of DE can be grouped under two headings: i) Unfavorable circumstances witnessed within the development process itself, and the ensuing disturbance of the coherence of the Third World countries, and ii) the inadequate analytical framework of DE (Şenses, 1996b). First of all, it is a discernible fact that the course of DE as a discipline was in line with the course of the international economy. As the economies of many countries boomed along the Golden Age, DE also increased its dominance as a socio-economic discipline. As the economies started to decline in the 1970s, so did DE. This fluctuating nature of the world-economy intensified the already existent differences among Third World countries. In other words, a kind of 'diversification' was witnessed along the development experiences.<sup>18</sup> As such, it turned out to be more and more difficult to treat and deal with these increasingly differentiating less-developed countries in the same category. As one of the emergence reasons of DE was to examine the less-developed countries more or less as a whole (as distinct from the industrialized countries), DE lost its ground on which to work. Secondly, the analytical framework of DE proved to be inadequate (Şenses, 1996b: 109-114). For instance, i) DE had too simple modeling procedures that relied merely on an anti-growth constraint (such as low saving ratio, foreign exchange scarcity, lack of entrepreneurship, etc), as if growth/development could be achieved only by the elimination of these constraints, ii) DE usually tended to ignore the inequalities/dissimilarities among less-developed countries, iii) While focusing upon long-term objectives like industrialization and structural change, DE forgot about dealing with short-term problems of instability, and thus was caught unprepared in the face of economic crises in the 1970s and 1980s, and iv) DE usually tended to overlook the significance of differences regarding political, historical and institutional conditions. And, as we discussed above, this last inadequacy of DE was the

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<sup>17</sup> For debates on the fall of DE, see Ake (1988) and Giunta (1993).

<sup>18</sup> For instance, while some countries like Singapore, South Korea, Hong Kong, etc., fared very well, Sub-Saharan African countries experienced even decreases in their real GDPs. The differences between oil exporter and oil importer Third World countries also intensified, etc. (Şenses, 1996b: 107-109).

main target of attack of NMA. As far as the purpose of our thesis is concerned, we should proceed further and make a few comments.

Dependency Theory gained momentum – at least theoretically – during the 1970s and never vanished completely from the academic circles. Samir Amin's well-known notion of 'de-linking' turned out to be an influential context for the improvement of the Dependency Theory. In spite of some critiques (such as Kay, 1975; Warren, 1980; Elsenhans, 1991), the neo-Marxist idea that the development of the Third World necessitates an *independent* strategy by way of breaking its links with the First World has never lacked proponents (such as Bagchi, 1982, 2000; Bernstein, 1973; Cardoso & Faletto, 1979; Evans, 1979; Senghaas, 1985; Somel, 2000). In the meantime, Immanuel Wallerstein and his colleagues developed the so-called 'World-Systems Analysis', which put a bold face on the Dependency Theory. In this respect, Samir Amin (1973, 1976, 1990, 1992, 1997), Giovanni Arrighi (1990, 1991, 1994), André Gunder Frank (1967, 1996) and Immanuel Wallerstein (1974a, 1974b, 1979, 1980, 1983, 1984, 1988, 1991a, 1991b, 2005) made up "The Gang of Four" in Wallerstein's words (Wallerstein, 2000: xi). "The Gang of Four" jointly edited books (Amin *et al.*, 1982, 1990) and contributed to the institutionalization of such journals as *Review* (of the Fernand Braudel Center) and *Journal of World-Systems Research*.

Dependency theorists and world-systems analysts differed from the structuralist development theorists in that they did not believe in the possibility of Third World's development within the existing rules of the capitalist world-system. In the context of the Dependency Theory, as long as the Third World remained in contact with the First World, the pattern of 'unequal exchange' could not be eliminated by merely having recourse to state-led policies. The divergence between the Structuralist School and the Dependency Theory arose from the latter's insistence on a self-insulation strategy on the part of the Third World. Unless the Periphery reduced its contact with the Core to a great extent, the state-led development strategies would not succeed, and would lead to – what later came to be termed as – 'development of underdevelopment'. In this

connection, World-Systems Analysis was even more ‘pessimistic’ – so to speak – than the Dependency Theory. The architects of World-Systems Analysis took the ‘world-system’ as their main unit of analysis. They avoided confining their works to the context of ‘national’ economies. It is always the capitalist world-system as a whole that develops regularly as a strong mould, within which *spasmodic* experiences of development are determined at country level. The works of world-systems analysts can be interpreted as implying the impossibility of any kind of ‘genuine development’ as long as the capitalist world-system remained intact. At this point, it is time to declare that our thesis also bears a similar ‘pessimism’ in the face of the contemporary model of global governance.<sup>19</sup>

From our point of view, the Dependency theorists were right to emphasize the need for an independent development path for the Third World. As far as the period roughly from 1945 to 1970 was concerned, the Third World could fare much better, if it chose an independent development strategy rather than a dependent one entailing a compromise between Keynesianism and Developmentalism. The two decades of the postwar period had in fact provided

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<sup>19</sup> Not surprisingly, the neo-Marxist approach developed by the dependency theorists and world-systems analysts were also criticized frequently by especially orthodox Marxists, who insisted that: i) capitalism is to be analyzed by focusing upon its ‘mode of production’ rather than its ‘mode of exchange’, ii) capitalism should not be analyzed from a ‘developmental’ point of view, which avoids seeing the essence of capital accumulation dynamics pertinent to it, iii) the ‘development of underdevelopment’ context inaccurately accentuates and entails ‘utopian’ implications for the transition towards ‘socialism’, while overlooking the implications of class conflict at national level, etc. (Lall, 1975; Phillips, 1977; Brenner, 1977; Bernstein, 1979; Gülpalp, 1979, 1983). In this regard, we should explain the extent to which our thesis relies on the neo-Marxist approach. First of all, we would like to avoid a revival of the ‘productionist versus circulationist’ debate by declaring that our thesis does not offer a substitute for ‘mode of production’ analysis. Indeed, our aim is to offer an ‘institutionalist’ framework of ‘mode of exchange’ analysis, which may well complement the production- and class-based orthodox analysis. Secondly, we should also make it clear that our thesis does *not* involve an attempt to analyze the social forces that would yield the transition from capitalism to socialism. Indeed, our thesis basically focuses upon how capitalism may come to an end within the context of ‘development of underdevelopment’ in the ‘age of governance’, and it does *not* deal with how socialism or any non-capitalist system can be constructed after the demise of capitalism. Therefore, what we suggest is that ‘institutional’ aspects of capital accumulation can also be effectively used to reveal the internal contradictions of capitalist ‘unequal exchange’ at world-economy level of analysis, whereby a new face can be put on the collapsibility dynamics of capitalism. In our concluding sixth chapter, we will briefly re-summarize this aspect of our thesis after a full discussion of our perspective of Institutional International Political Economy.

the Third World with a very benign milieu, whereby a non-capitalist Third World consensus could presumably yield a truly ‘great transformation’ at the level of the world-economy. If a considerable portion of the Third World countries had adopted an ‘independent’ socialist model rather than the US-led capitalist model, we might have been living in a very different world today.<sup>20</sup> With this retrospective exegesis, we argue that the Third World missed the opportunity of paving the way for a ‘great transformation’. In concurrence with the Dependency theorists, our contention is that a ‘genuine development’ was feasible at the level of the world-economy as far as the period from 1945 to 1970 was concerned. We conceptualize ‘genuine development’ as the elimination or minimization of socio-economic differences between the First and Third worlds. Put differently, we can speak of the emergence of ‘genuine development’ only at the level of the world-system and only after the capitalist division of labor disappears in the world-economy, which would, then, consist of merely a *non-capitalist all-encompassing Core without a Periphery*.

In the face of the contemporary model of global governance, our contention is that even ‘independent development’ is impossible nowadays. ‘Independent development’ was viable in the few decades of the postwar period, during which the possibility of constructing a non-capitalist world had emerged out of the centuries-old capitalist world-system, *for which the postwar developments meant a matter of life and death*. However, the postwar period turned out to be the Golden Age of capitalism, which resurrected itself by means of international Keynesianism, to the success of which structuralist DE of the Third World contributed significantly.<sup>21</sup>

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<sup>20</sup> A non-capitalist consensus on the part of Third World countries could even perhaps transfigure the defective and authoritarian aspects of USSR-led socialism into a humane, democratic and non-capitalist world.

<sup>21</sup> Given their underdeveloped setting characterized by helplessly backward economies with extremely scarce capital, it would be a relentless comment to blame the Third World countries for not having chosen an ‘independent’ development path. Moreover, we now possess the advantage of interpreting retrospectively. It was almost impossible for the Third World countries to foresee that a ‘dependent’ strategy would eventually fail. Hence, we should make it clear that we are not putting any blame on the Third World for subscribing to a ‘dependent’ strategy. The point is that we should learn history’s lessons well. As a historical world-system, capitalism entails the co-existence of ‘development and underdevelopment’. At world-system level, for us, ‘co-existence of development and underdevelopment’ can be considered as a

At this stage of our thesis, it should suffice to inform the reader this much of our contention, which, we will clarify in the pages that follow. To our concluding chapter, we reserve some further remarks to be made in connection with our seemingly ‘pessimistic’ stance as well as with the *sporadic* development experiences, which we do not consider as ‘genuine development’. Now, we turn again to the structuralist-statist postwar, which was followed by the pro-market last quarter of the preceding century.

The *de facto* distinction between the socialist Second World and the non-socialist Third World implied that the overwhelming majority of the Third World countries adopted development strategies within the context of the capitalist world-economy rather than subscribing to the Dependency Theory.<sup>22</sup> Without completely breaking the connections with the advanced capitalist First World, the Third World launched out on a voyage of state-led industrialization. Given their poor stocks of fixed capital, the Third World countries would refrain from totally insulating their economies with the hope of benefiting from the capital-abundance of the First World, which was led by the US – the daunting ‘atomic bomber’. All in all, not the Dependency Theory, but a non-radical version of structuralism led the Third World to adopt the state-led *capitalist* strategy of the so-called import substitution industrialization (ISI).

The logic of ISI was simple and appealing. The Third World countries were unable to domestically produce manufactured goods and thus had to rely on

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practical definition of capitalism. That is to say, capitalism survives as long as this co-existence remains within the world-system. The corollary is that ‘genuine development’ is not viable as long as capitalism survives. Hence, we conceptualize ‘genuine development’ as a possibility that can come true only if capitalism collapses as a historical world-system. Otherwise, we do not consider the individual developmental successes of separate countries as *cases* of ‘genuine development’. ‘Genuine development’, for us, is the ‘utopian’ possibility of a single and one *case* of world-wide elimination of underdevelopment, which necessitates the demise of the centuries old capitalist world-system. In this connection, we tend to think of the postwar circumstances as a missed opportunity to put an end to capitalism (as the socio-economic system of ‘embeddedness’ of ‘development and underdevelopment’). In the end of our dissertation, we will draw attention to a similar, incipient and current opportunity in the face of ‘global governance’ project. We should learn history’s lessons in order not to miss the opportunity a second time.

<sup>22</sup> Merely Chile under Salvador Allende and Jamaica under Michael Manley’s first premiership dared to temporarily adopt the recipe of the Dependency Theory.

imports from the First World. They had to produce and export more and more primary goods to the First World due to the declining tendency in the terms of trade against the unfinished products. ISI meant the promotion of the domestic production of manufactured goods so that reliance on the First World could be mitigated and stopped. However, this was not an ‘independent’ strategy on the part of the Third World countries. In order to build up and maintain industries that were to produce manufactured goods domestically, Third World countries had to rely heavily on: i) their exports of primary products to the First World, and ii) fixed investment goods that were to come from the First World. Therefore, maintenance of the contact with the First World was a prerequisite to adopt ISI, which, thus, represented not only a state-led strategy, but also a *capitalist* ‘dependent’ path to development – a fact that is overlooked at times.

ISI entailed the encouragement and protection of domestic industries by means of state-led policies such as: i) import tariffs and quotas, content regulations and quality controls, which were directly or indirectly aimed at restricting the imports of finished goods from the First World, ii) government subsidies and cheap credits allocated to the domestic firms producing manufactured goods, iii) taxation of the exporters of primary goods in order to finance the subsidies and credits allocated to the producers of manufactured goods, iv) utilization of marketing boards to regulate the primary goods industries, which were to sell their products to the marketing boards at lower prices than the world price, and v) creation of legal monopolies to guarantee the profitability of the domestic firms producing manufactured goods (Rapley, 2002: 21-23). As such, ISI involved across-the-board state intervention aimed at repressing the market forces at various levels in almost all Third World countries.<sup>23</sup>

As far as the First and the Second worlds were concerned, ‘the state’ also ruled supreme over ‘the market’. In other words, ‘the state’ was ascendant in the world economy as a whole. The First World was utilizing ‘the state’ to repair the damages of the war and to re-maintain social welfare, which had gone with

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<sup>23</sup> For detailed analysis of the ISI-strategy see Ahmad (1978); Bruton (1970); Hirschman (1968) and Schmitz (1984).

the wind of the self-regulating market capitalism of the nineteenth century civilization. The Second World had totally replaced ‘the market’ with ‘the state’, hoping to prove that a completely different and non-capitalist socio-economic system was also possible. The Third World was heavily relying on ‘the state’ in order to catch up with the level of First World’s industrialization/development by means of protective trade policies along with state-activated industrial strategies. Such concomitant ‘anti-market’ circumstances at all levels of the world economy should have made nineteenth-century liberals turn in their graves!

Nonetheless, in the Third World economies, state-leadership in the form of the ISI strategy could be maintained only within the context of a booming world economy. When the First World economies started to suffer from declining rates of productivity and profits towards the 1970s, the ISI strategy of the Third World began to stagger as well. This *concurrent* emergence of failure signals can well be interpreted as the persistence of the ‘dependency’ pattern between the First and the Third Worlds, for both of which 1971 was a turning point. In the face of alarming balance of payments deficits, the US abandoned the Gold Standard, which had held the Bretton Woods system operational throughout the Golden Age. However, the collapse of the system was initiated by a political event two years later.

In an attempt to protest the Israel-friendly attitude of the US, Europe and Japan; the Organization of Petroleum Exporting Countries (OPEC) imposed an oil embargo on the major countries of the First World. The economic consequence of this political move can be said to be the ‘start of the end’ of the Keynesian Golden Age of managed capitalism. On the one hand, dramatic rise in oil prices led to sharp decreases in production in the First World. On the other hand, the Golden Age had already entered a phase of declining productivity along with rising real incomes. A mix of demand-pull and cost-push inflationary pressures thus yielded an unprecedented phenomenon in the First World: Stagflation – inflation despite recession. It was soon understood that conventional Keynesian

policies were not instrumental in getting rid of the new problem of stagflation. As such, the Oil Shock of 1973 marked the start of difficult years for both First and Third Worlds. From then on, International Keynesianism and non-radically structuralist developmentalism started to be jointly discredited, while the system of welfare and developmental states fell flat.<sup>24</sup>

As a matter of fact, the dependency-related problems in the Third World were not so acute until a second Oil Shock in 1979. In between the two oil shocks, petroleum exporting countries accumulated bulky sums of wealth thanks to their established cartel power in the world oil market. Their current accounts started to give such large surpluses that it turned out to be impossible to invest these 'oil surpluses' at home. Then, as the best option, they chose to deposit their bulk of wealth in international banks of the First World countries. This glut of liquidity forced the banks of the capitalist world to extend cheap credits at large quantities. This process was called the re-cycling of oil surpluses (Gibson & Tsakalatos, 1992: 183). It was a period of seemingly very attractive opportunity

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<sup>24</sup> In the course of time, the oil embargo generated some developmental hope as reflected in the idea that the Third World countries could do the same as OPEC. That is, the Third World countries could also collectively increase their prices of exports to the First World so as to augment their share in world's volume of trade. This Third World optimism found expression in the famous *Declaration of the Establishment of a New International Economic Order* (NIEO), which was adopted in the United Nations General Assembly in May 1974 and was confirmed in the *Charter of Economic Rights and Duties of States* in November 1974. Third World leaders collectively behaved in order to demand a NIEO, according to which the world markets were desired to be regulated in such a way to improve the position of the Third World countries. This seemingly radical unity on the part of Third World countries could not last long, however. The First World countries responded coolly and disapprovingly under the strategic leadership of Henry Kissinger – then US Secretary of State. Over time, the First World countries started to forcefully argue that the *Declaration* and the *Charter* overlooked the responsibilities of the Third World countries. Indeed, Third World's demands were deflected by means of a call for a 'social democratic third way' at global level, as manifest in Tinbergen Report (1976) and Brandt Report (1980), which required the Third World countries implement internationally approved internal reforms for the attainability of concessions on international redistribution (Hoogvelt, 1982: 80-102; Elsenhans, 1991: 129-150). All in all, the Third World demand for a NIEO involved neither an attempt to radically change the existing rules of the world-system nor an intention to completely cut contact with the First World. It was an optimistic effort to participate more within the *status quo* of the world economy. Nonetheless, demand for a NIEO was historically important at least for representing one of the very rare occasions that united 'the South' to somehow challenge 'the North'. That is to say, the past experience of demand for a NIEO should remind us that it is possible to form a Southern consensus *vis-à-vis* the dominance of the Northern consensus. Irrespectively of whether the former can effectively undermine and replace the latter, the 'designability' of the former as a distinct possibility should be always kept in mind.

for investment. The Third World countries did not fail to miss this opportunity. They borrowed but simply too much at a time when the banks were too generous to give “low-interest loans for questionable projects” (Rapley, 2002: 34). It would be understood in the immediate future that this process of debt accumulation on the part of the Third World was not sustainable. As soon as the second Oil Shock burst out in 1979, the stagflationary pressures in the First World started to influence the Third World dramatically.

In this connection, an important difference between the two oil shocks should be mentioned. In the first shock, the First World countries did not respond in a systematic way. However, in the second shock, all First World countries subscribed to struggling with inflation as their major priority. To curb the alarming inflation, they implemented deflationist policies so as to press down the demand. This, in turn, put a downward pressure on the imports from the Third World. With falling export revenues, Third World countries started to suffer from difficulties to pay the interest on their debt. Moreover, the First World countries also adopted strictly tight monetary policies in response to the rising inflation. Consequently, world interest rates reached extremely high levels, which, in turn, caused the Third World countries to have to pay more and more interest on their existing debt stocks (Gibson & Tsakalatos, 1992: 183). While financial capital rushed into the high-interest centers of the First World, much of Third World’s US-dollar-debt was subject to variable interest rates with short-term maturity. The Third World suddenly found itself in a helpless situation of extreme shortage of liquidity. The rise in the demand for liquidity led the appreciation of the US-dollar, which, in turn, effectively augmented Third World’s debt in real terms. Argentina, Brazil and Mexico announced in 1982 that they were unable to meet their debt obligations. As such, early 1980s marked the start of an ‘international debt crisis’, which had important consequences on the re-shaping of the international order in the decades to come. The Third World countries had no choice but to have recourse to financial assistance from the World Bank and the IMF. These circumstances gave birth to

the so-called ‘neoliberalism’ as a new paradigm, which replaced the notion of (capitalist) state-leadership with (capitalist) market-orientation.

The increasing borrowing requirements of the Third World all along the postwar period should be considered as one of the most significant aspects of the ‘dependency’ pattern between the developed and underdeveloped worlds. We should also draw attention to one important difference between Third World’s borrowing patterns during and after the Golden Age. In 1950s and 1960s, the main source of Third World’s foreign exchange requirements was ‘official borrowing’ from the governments of First World countries in the form of financial aid and debt in somewhat concessional terms. However, in the 1970s, main source of borrowing turned out to be the private international banks (Stanyer & Whitley, 1981; Stewart & Sengupta, 1982). In other words, 1970s were the years during which private financial capital started to re-dominate and re-organize the world-economy since the beginnings of the inter-war period, during which the *haute-finance*-led self-regulating market system of the ‘nineteenth-century civilization’ had collapsed (Polanyi, 1944).

The ‘commanding heights’ of the world-economy did not fail to realize that the ‘debt crisis’ on the part of the Third World was a very serious emergency. The World Bank shifted its agenda from development-oriented Basic Needs approach to debt-relief programs of structural adjustment. Backed by the IMF’s stabilization programs, a ‘new international economic order’ was in the making. Of course, this was a new order with completely different mechanisms as compared to the New International Economic Order (NIEO) demanded by the Third World countries in 1974. Lack of participation by and influence of the Third World countries characterized the formation of this new order in the early 1980s. At a time when the revival of ‘liberal creed’ was being witnessed in the name of ‘neoliberalism’; the World Bank, the IMF and the White House were writing down an anti-Keynesian/anti-structuralist recipe that would subsequently be dubbed as the ‘Washington Consensus’.

The consequence of the stagflationary 1970s in the First World was not only the ‘debt crisis’, but also the transmission of ‘inflation’ as a chronic problem to the Third World in the 1980s. In this respect, the World Bank and the IMF agreed to help the Third World to get rid of these two major problems. But they ‘helped’ in such a way that, as if there were no ‘dependency pattern’ between the First and the Third Worlds; that is to say, as if the Third World’s problems had nothing to do with its ‘dependency’ on the First World. The neoliberal Washington Consensus blamed the cumbersome structure of ‘the state’ in the Third World for the existence of these macroeconomic problems. So, the involvement of ‘the state’ in the economy was to be minimized. The eventual failure of the ISI strategy was considered to be the conclusive proof of the ineffectiveness and uselessness of ‘the state’ in accomplishing developmental tasks. ‘The market’ could do better. What is more, the neoliberal mentality had a tendency to attribute the ‘debt crisis’ and ‘chronic inflation’ in the Third World to the state-led ISI strategies that were implemented for some time: If market forces were allowed to operate freely, such problems would not occur.<sup>25</sup>

Neoliberal ‘stabilization’ and ‘structural adjustment’ started with the idea of market-oriented and export-led growth and development. By definition and construction, the Washington Consensus defied the involvement of ‘the state’ in the economy. Therefore, the state-dominated remnants of the previous ISI period had to be cleared away as soon as possible. ‘Structural adjustment’ programs of the World Bank coupled with the ‘stabilization’ policies of the IMF

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<sup>25</sup> Neoliberals were also attributing the so-called ‘East Asian miracle’ to market-oriented policies and openness as opposed to the rest of the Third World. In this regard, neoliberals were confusing two things: ‘microeconomic inefficiency’ and ‘macroeconomic instability’. As Rodrik (1996) argued convincingly, such *microeconomic* phenomena as lack of openness and active industrial policy do not necessarily generate *macroeconomic* instability or reductions in long-term growth. The key factor behind the impressive success of the East Asian countries was ‘macroeconomic strength’, best represented by the cases of South Korea and Taiwan. It is true that these countries achieved economic success basically thanks to maintaining fiscal austerity and competitive exchange rates. However, they were also always cautious enough to take necessary measures in order not to remain vulnerable in the face of emergent macroeconomic imbalances in the First World. This being the case, some writers even attributed the success of these countries to their ‘independent’ development strategies as opposed to the standard neoliberal recipe. See, for instance, Somel (2000) for the case of South Korea. Most importantly, it is generally agreed nowadays that these countries heavily relied on ‘microeconomic’ state intervention. That is, they adopted protectionist trade policy accompanied by an active industrial strategy *par excellence*.

required market-friendly reforms, all of which were specifically designed to put a decisive end to the ‘state-led spirit’ of the Keynesian/Developmentalist consensus. The standard neoliberal recipe had four tenets: i) Fiscal austerity, ii) Privatization, iii) Trade liberalization, currency devaluation, and abolition of marketing boards, and iv) Retrenchment and Deregulation (Rapley, 2002: 66-69).

First, fiscal austerity was needed to curb chronic inflation. Excessive government spending and the resulting high inflation were detrimental to private investment prospects. The clear-cut solution was to significantly reduce government expenditures; including welfare payments, subsidies, and public investment programs. A secure environment for business was considered to be the most important factor behind economic growth/development (However, fiscal austerity necessarily implied a much less secure environment for the rest of society). Secondly, privatization was necessary to avoid misallocation of resources, inefficiency and rent-seeking behavior, which were considered to be caused by the inherently weak management within the public sector (However, it was impossible for the neoliberals to foresee the cases of corporate corruption in the private sector, which were to burst out a few decades later, most notably in the US). Thirdly, trade and capital account liberalization, currency devaluation and abolition of marketing boards were all necessary for the free operation of the market forces at both international and domestic levels. It was time to ‘get the prices right’ after several decades of artificial price-determination led by ‘the state’. By this way, the Third World countries could benefit from the efficiency of ‘the market’ and re-structure their productive activities in accordance with their comparative advantages (However, Third World countries had comparative advantage in the production of primary goods. So, they should accept their fate by completely forgetting about the Prebisch-Singer thesis and Dependency Theory). Fourthly, retrenchment and deregulation were needed to remove all the remaining state-related obstacles in front of the self-operation of ‘the market’. For the first three tenets of the recipe to be effective, ‘the market’ should have ruled supreme over ‘the state’. Hence, the

Third World countries were obliged to minimize the role of ‘the state’ in the economy in any case. Unless the Third World countries accepted to adopt this standard neoliberal recipe, they could not see the ‘green light’ for assistance to be provided by the the World Bank and the IMF.

Consequently, many Third World countries subscribed to the market-friendly and export-oriented growth/development policies in accordance with the Washington Consensus throughout the 1980s and 1990s. It is difficult, if not impossible, to conclude that the neoliberal policies delivered their developmental promises. Some countries seemed to achieve success, but only temporarily. It is perhaps possible to summarize the balance sheet of neoliberalism as follows: Structural adjustment programs “have done the most good in Latin America<sup>26</sup>, and the least good in Africa” (Rapley, 2002: 73). This may well be the reason why the concept and the model of ‘governance’ first emerged as a World-Bank-response to the alleged ‘crisis of state’ in sub-Saharan Africa.<sup>27</sup> Indeed, the recent emergence of a new Post-Washington Consensus can be considered an indicator of the fact that the original Consensus did not work as expected.

All in all, as far as the vulnerability and the fragility of the financial systems of the Third World countries are concerned, we can safely argue that neoliberalism did more harm than good. Unrestricted capital movements across countries have constituted the dominant characteristic of the neoliberal period along with the so-called process of ‘globalization’. The adherents of the Washington Consensus witnessed devastating financial crises throughout the 1990s. In 1997, even the ‘miraculous’ countries of East Asia shared the same fate, thereby

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<sup>26</sup> However, see Yalman (2003) for critical remarks concerning the Latin American experience of development under the “neoliberal hegemony”. The same author emphasizes the decisiveness of state-capital relations (Yalman, 2002a) in juxtaposition to conceptualizing statism, developmentalism and pro-marketism as hegemonic projects (Yalman, 2002b).

<sup>27</sup> In the mean time, the capitalist world-system gave birth to a ‘Fourth World’, in which such non-state actors as ethnic communities and gender groups started to suffer from lack of the right to voice their wants and needs in especially the least-developed regions of the world. The peoples in these backward regions are politico-culturally unorganized. The emergence of ‘governance’ was partially a response to the need for involving such actors in decision-making processes. Supposedly, ‘governance’ claims to become also functional in terms of healing the ‘illnesses’ of the Fourth World.

leading to world-wide consequences by way of Russia and Latin America. Here, we will not examine the instances of failure on the part of neoliberalism one by one. However, in the following section, we submit an epitome of a convincing critique of neoliberalism. This heterodox critique of the orthodoxy, *Reclaiming Development* by Ha-Joon Chang and Ilene Grabel, does not only shed light on the reasons why neoliberalism did not work in general, but also proposes a good deal of state-led alternative policies for development. To be sure, we preserve our critical attitude towards this type of heterodoxy in line with the remarks made in the Introduction.

#### **2.4. *Reclaiming Development* in the Face of Neoliberalism**

Ha-Joon Chang of Cambridge University is one of the most prolific development economists of our times. At a time when the neoliberal orthodoxy, by its dictum of ‘There Is No Alternative’ (TINA), has been trying to illegitimize Development Economics, Chang has emerged as a consistent dissenter of neoliberalism from the 1990s onwards. He contributed impressively to the recent revival of Development Economics by way of concentrating upon such areas of research as industrial policy (Chang, 1994a), the role of the state and the market in economic growth (Chang, 1994b; Chang & Rowthorn, 1995; Chang, 1997; Chang, 1999; Burlamaqui *et al.*, 2000; Chang, 2002a), globalization and development (Chang, 2002b), and the historical evolution of developmental policies and institutions (Chang, 2002c), to name some of his outstanding contributions. Just as Friedrich List was a leading figure against the UK-led classical liberalism in the nineteenth century, it would be no exaggeration to say that Ha-Joon Chang is walking and marching in the footsteps of List so as to become the most influential antagonist of US-led neoliberalism of the last quarter of the twentieth century. Indeed, he was awarded the Myrdal Prize in 2003 largely because of his Listian contributions to development issues (Chang, 2002c). As the course director since 2001, he has been organizing *Cambridge Advanced Programme on Rethinking Development*

*Economics* (CAPORDE) – an annually held two-week workshop that aims at resurrecting Development Economics through an intensive program of lectures given by distinguished development professors to the young academicians of the developing world (for a collection of papers edited through the lectures of CAPORDE, see Chang, 2003). With this exemplary background, it is, to be sure, no surprise that Ha-Joon Chang (together with Richard Nelson of Columbia University) was awarded the Leontief Prize in 2005 by the Global Development and Environment Institute of Tufts University. As such, Ha-Joon Chang secured an esteemed place among the previous winners of this prize, including John Kenneth Galbraith, Amartya Sen, Alice Amsden and Dani Rodrik. All in all, Chang’s works are like an oasis in the middle of the ‘Desert of TINA’.

Under these circumstances, to take his latest co-authored book (Chang & Grabel, 2004) as a ‘target of criticism’ is a daring attempt on the part of the author of this piece of study.<sup>28</sup> Yet, it is the contention of this dissertation that a truly historical-institutionalist perspective is badly needed nowadays in order to set forth the *real* possibilities of reclaiming ‘genuine development’. In other words, only after the ‘rules’ of the ‘global game’ of ‘governance’ is *radically* re-written, only then can development be reclaimed. This is, of course, an extremely formidable task, which can never ever be accomplished – since it seems to necessitate the collapse of capitalism-as-a-historical-world-system. However, in the pages that follow, we try to demonstrate that ‘reclaiming development’ *alone* (i.e., implementing the would-be ‘conducive’ policies *vis-à-vis* the existing institutions of the capitalist world-economy) is very unlikely to yield success on the part of the majority of the less-developed countries. The contemporary paradigm of ‘governance’ as the offspring of the so-called Post-Washington Consensus aims at dismantling the policy-making capabilities of the state. It is this paradigm *per se* which is to be *radically* taken into account. Keeping this in mind, we now turn to *Reclaiming Development*.

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<sup>28</sup> Not only did I become a student of Ha-Joon Chang and Ilene Grabel in CAPORDE-2002, but also translated their book from English into Turkish (Chang & Grabel, 2005) together with Cem Somel – one of the examining committee members of this dissertation.

In Part I of their book, Chang and Grabel (2004: 5-51) refute neoliberal myths and establish historical realities about development. To sum up:

- i) Developed countries of our times did not subscribe to free market policies during their initial stages of development. Rather, they relied heavily on state-led policies, intervention and planning.
- ii) Neoliberalism of the last quarter of the preceding century has proved to be a case of failure in terms of delivering its developmental promises. It not only failed in bringing about sustainable economic growth and development, but also augmented income inequality within and among countries.
- iii) Globalization process under the TINA-dictum of neoliberalism is not an inevitable outcome of historical evolution. It is, indeed, the result of conscious political decisions that have been taken deliberately to construct a neoliberal framework for global governance.
- iv) The neoliberal American model of capitalism has been far from representing a useful source of inspiration for developed and developing countries. Even the life standards of American people did not improve under this model, which, in turn, has generated corporate corruption and resource misallocation in that country.
- v) The American model of development is not universal. In addition, the East Asian model does not fully rely on the special conditions of the region. The latter model has proved to be more successful than the former, and thus it can serve better for the needs and aspirations of the developing world.
- vi) Politically independent domestic policy-making institutions are not necessarily conducive to long-term economic performance. Indeed, the historical record shows that politically dependent public officials have played a vital role in the development of many countries.

These six arguments constitute a convincing demystification of the fabrications of neoliberalism, which emerged during the late 1970s and early 1980s as an attempt to revive the ‘liberal creed’ of a self-regulating market system at world

scale. Hence, these six arguments can be considered a sound refutation of the ‘market-oriented’ orthodoxy with an emphasis on the need for ‘state-led’ heterodox development policies. Put differently, ‘the market’ alone could not and cannot accomplish its developmental task, and ‘the state’ should and must be given a well-defined and active role so that the developing world can attain developmental success. Therefore, Part I of the book by Chang and Grabel is a succinct and powerful attack on “the triumphalism, hubris and closed-mindedness with which the neoliberal orthodoxy has dominated discussions of economic policy around the world during the last quarter of a century” (Chang & Grabel, 2004: 1).

Consequently, Part I “serves as the backdrop for . . . [the] discussion of economic policy alternatives in Part II” (Chang & Grabel, 2004: 5). The authors’ alternative policy proposals comprise five major areas: trade and industry (chp. 7), privatization and intellectual property rights (chp. 8), international private capital flows (chp. 9), domestic financial regulation (chp. 10), and macroeconomic policies and institutions (chp. 11). In each area, the authors propose ‘workable’ policy alternatives that are to be designed and implemented by *the state*, which, by implicit assumption, possesses and retains its capability of policy-making. We submit below a summary of these alternative policies as elaborated by Chang and Grabel. We would like to draw the attention of the reader to ‘*the quantity*’ (i.e., *the extent*) and ‘*the quality*’ (i.e., *the nature*) of the roles that *the state* is to undertake within this scheme:

- i) *Trade and Industry*: Particular domestic industries, especially those that are promising and that have strategic importance for long-term development, should be protected from international competition by means of tariffs, import quotas, export subsidies, etc. Even though the World Trade Organization (WTO) has rendered it more difficult for the developing countries to implement interventionist trade policies, governments can still find “*room for some types of trade protection under present WTO rules*” (69). “The WTO rules are not

immutable” and governments can act collectively to rewrite them (70). On the other hand, the state can and should also implement selective industrial policies so as to support specific industries. Such policies have proved successful in the past in not only East Asia, but also Brazil, France, Austria, Norway, Finland, etc. The state should actively support industries, especially in cases when the market fails (due to the existence of externalities and public goods, and the need for large-scale decisions). A rational industrial policy can be designed by the state in three steps: First, the government is to construct an overall ‘development vision’; secondly, it should design complementary policies in other areas that will support industrial policy; and thirdly, it should establish performance targets and incentives, which it should monitor carefully (78-80).

- ii) *Privatization and Intellectual Property Rights:* Inefficiency, waste and mismanagement do not pertain to state-owned enterprises (SOEs); they may and do arise in the private sector as well. Moreover, SOEs do not necessarily undermine economic growth. Therefore, privatization of SOEs is a dubious solution for enhancing efficiency and eliminating ‘inertia’ in the economy. Indeed, privatization engenders “distributional, political and social costs” (90). The state had better seek for budgetary improvements through fiscal reforms rather than through privatization. Governments can also improve the performance of SOEs without privatization. For instance, the state should undertake organizational reforms and construct incentive systems within the SOEs so that they can be monitored and operated more productively and more easily (90-91). On the other hand, protection of intellectual property rights (IPRs) is not necessarily a precondition for improving innovative capabilities (94-95). It is ambiguous that protection of IPRs is conducive to development, especially in the case of patents and trade-related IPRs, which are, indeed, quite costly (95-100). Innovativeness can be enhanced better by government support channeled towards education

and research (101-102). Moreover, governments of developing countries can utilize foreign direct investment (FDI) as a strategic tool to transfer foreign technologies and encourage domestic innovations. To do so, the state should target the attraction of technology-intensive FDIs as well as negotiate and create partnerships between domestic and foreign researchers (102). Since patents and trade-related IPRs are of limited use and costly for developing countries, governments can and should challenge the existing regime of trade-related IPRs, for instance, by overriding some patents as far as the clauses of the agreements are malleable (103-104).

- iii) *International Private Capital Flows:* According to the neoliberal dogma, free capital movements contribute to economic growth and development. This is not true, however. Under floating exchange rates, large/sudden inflows and outflows of capital have destructive impacts upon the economy. Such inflows lead to difficulties in the balance of payments and provide domestic and foreign investors with an “undue” power to be exerted upon domestic policy making. Such outflows tend to aggravate macroeconomic vulnerabilities and financial instability since they generate vicious cycles of successive depreciations of the domestic currency followed by additional capital flights (111-112). Many governments have had recourse to capital controls for developmental purposes and they fared quite well in this respect (113-114). Therefore, the state had better manage the capital movements via well-designed capital controls. The “trip wire – speed bump approach”, which was developed by Grabel (2003, 2004), may well serve this task on the part of governments: “Trip wires are simple measures that warn policymakers and investors that a country is approaching high levels of risk in various domains (e.g. currency collapse, the flight of foreign lenders or investors, the emergence of fragile financing strategies, etc.). Once a trip wire predicts the emergence of a particular vulnerability, policymakers would then

immediately take steps to curtail the risk by activating a targeted, graduated capital control, or what we call a speed bump” (115). In this regard, the state should assume an active role in controlling and restricting three basic types of international private capital flows; namely, foreign bank borrowing (FBB), portfolio investment (PI), and foreign direct investment (FDI). In the case of FBB, speculative bubbles and overinvestment are among the likely results, which, in turn, aggravate financial fragility. Moreover, burden of foreign debt has adverse effects on long-term economic growth (116-120). Thus, governments should enforce strict ceilings on the volume of FBB by establishing “permissible levels” of foreign loans. Also, the tax system can be utilized to discourage foreign loans (120-122). For the FBB to be used for productive and developmental purposes, the state should manage the allocation and the terms of such loans. These restrictive governmental policies have been implemented successfully by such countries as Chile, Colombia, China, India as well as by the East Asian countries prior to their financial liberalization in the 1990s (122-123). In the case of PI, neoliberals have argued that the liquidity of PI is beneficial for developing countries. It is true that PI entails a rapid price adjustment mechanism. However, this is not a necessarily beneficial property. Given the highly liquid nature of PI, asset price volatility leads to uncertainty and increased financial fragility, which, in turn, create big problems regarding the exchange rates and international trade. Moreover, PI restricts the policy autonomy of governments with respect to the promotion of growth and living standards (126-127). Therefore, the state had better carefully manage the flows of PI, as has been experienced in the past and present in several countries (129-130). Governments can restrict the access of domestic investors to foreign capital markets and levy “exit taxes” so as to discourage domestic capital flight. “Minimum-stay requirements” can also be enforced in order to avoid foreign capital flight (133-134). In the

case of FDI, a strategic state-led regulation is required to reap developmental benefits. FDI policy must be considered “as an integral component of a country’s development strategy” (139). It must be kept in mind that state-regulation of FDI does not necessarily lead the foreign investors to shun the host countries. But FDI has the potential to lead to substantial outflows of capital (142-143). Recent experiences of China, India and Vietnam demonstrate that strategic state-led management is likely to maximize developmental benefits to be derived from FDI and other activities of transnational corporations (TNCs) (144-145). The state should establish links that connect the FDI to the plans of national development and industrial policy in accordance with the endowments and development goals of the country (145). A well-designed FDI strategy may also be adopted as a mixture of restrictive and liberal policies (145). Indeed, Korea and Taiwan did so successfully. Moreover, governments can and should utilize their bargaining power against TNCs whenever possible (147). It is, to be sure, “critical to have a government that is internally coherent and is politically and administratively capable of exercising its bargaining power vis-à-vis foreign investors and other actors” (148).

- iv) *Domestic Financial Regulation:* Neoliberals advocate market-regulated allocation of capital against a state-based financial system. However, empirical evidence shows that domestic financial liberalization tends to yield “speculation-led development” (Grabel, 1995). Such development increases financial fragility and the likelihood of currency and banking crises. It also augments income inequality and disparities in economic/political power distribution. “In a speculation-led economy the financial community becomes the anointed arbiter of the ‘national interest’” (155). As evidenced by historical record, successful development stories took place in countries where the state effectively managed the financial system (156). Hence, the state had better regulate the financial sector in the

service of developmental goals. James Tobin (1984) once put forward the critical concept of “functional efficiency”, which is defined as the “ability of the financial system to provide finance for long-term investment” (159). In this connection, governments can and should channel loans to key sectors, as was experienced in Japan, Continental Europe, East/Southeast Asia, and Brazil. The state can also influence bank lending through “tax incentives” that are designed to encourage strategic firms/sectors. Publicly financed development banks, which specialize in long-term lending, have also proven to be conducive to development (159-160). To direct the financial sector in the service of developmental goals, the state may also establish a “system of variable asset-based reserve requirements”. In this system, financial institutions are required to hold differential reserves (against different types of assets in their portfolio) in non-interest-bearing deposit accounts at the central bank (160-161). In the final analysis, for financial liberalization to yield developmental success, first of all some “requisite institutional and regulatory capacities” must have been already developed (162). If this is not the case, then financial liberalization is likely to result in financial crises. Governments should construct “a sound financial and regulatory infrastructure” before getting down to financial liberalization. As such, “a conservative stance on liberalization” is recommendable for the policy-makers in developing countries (162).

- v) *Macroeconomic Policies and Institutions:* First, in the case of currencies and exchange rates, neoliberals maintain that unrestricted currency convertibility and floating exchange rates are the best policies to promote international trade, capital flows and financial stability. If the economy is too vulnerable to exchange rate volatility, then currency boards and currency substitution may be second-best alternatives, according to this neoliberal view (165-168). However, unrestricted currency convertibility is problematic insofar as it tends to result in capital flight and financial instability. Not only today’s

industrialized countries maintained convertibility restrictions during their initial stages of development, but also such countries as China, India and Taiwan are nowadays adopting state-regulated restrictions with impressive success. On the other hand, floating exchange rate regimes are prone to sudden/large changes in the exchange rates, which, in turn, generate disastrous effects in developing countries (168-173). Moreover, currency boards and currency substitution have also adverse consequences insofar as they make it impossible to pursue discretionary monetary and fiscal policies. “[S]evere recessions, high unemployment and social misery” are common experience in those countries where currency boards are in place (175). Currency boards not only work against democracy and political accountability through their political independence, but also involve no significant contribution to ending the speculation against the national currency, as is evidenced by the recent experience of Argentina (175-176). Full currency substitution has similar and even more negative effects (176). As such, governments have every reason to engage in restricting currency convertibility and managing the exchange rates. To regulate convertibility and to avoid speculation against the national currency, for instance, the state may require foreign exchange licenses and prevent “domestic banks from lending to non-residents and/or ... non-residents from maintaining bank accounts in the country” (178). Along with capital controls, the state can also adopt an adjustable pegged exchange rate system to support export-led growth and maintain financial stability (179). Secondly, central bank independence along with the priority of monetary policy put on price stability has not generated desirable outcomes empirically. Even if they are insulated from ‘politics’, central banks still tend to behave in accordance with the interests of particular power circles. As such, inflation and macroeconomic fragility remain unsolved problems in developing countries, even if they maintain ‘independent’ central banks (182-184). Moreover,

“moderate levels of inflation … have little or no cost in terms of economic growth” (185). The neoliberal ‘obsession’ regarding inflation is baseless, and the “hyper-vigilance against inflation in developing countries is unnecessary” as has been shown by numerous empirical studies (186). Deliberate monetary policy is essential for the attainment of developmental goals. Therefore, “politically embedded and accountable central banks” are indispensable for those governments, which pursue such national economic goals as sustaining economic growth, increasing employment and promoting social welfare (187). Needless to say, it is the responsibility of the state to maintain dependent central banks, which could adopt such deliberate monetary policies. Thirdly, the ‘obsession’ of the neoliberal agenda regarding “fiscal restraint” as a solution to the excessive government expenditures in developing countries is also problematic insofar as the living standards and long-term economic growth are concerned. The developmental experiences of the US, Japan and continental European countries show that these countries prospered through extensive programs of public expenditure associated with large budget deficits. Hence, it is not reasonable to implement tight fiscal policy unconditionally (190-196). Strategic, well-designed and well-managed programs of public expenditure are vital for sustainable economic development, as has been evidenced by several empirical studies. “Developing countries cannot afford excessive fiscal restraint and have no reason to focus on budget balance as a key policy objective in its own right” (197). Therefore, the state had better seek out the possibilities for deliberate fiscal policy so as to support and maintain national development goals with an eye to augmenting the tax base and avoiding tax evasion (197-199).

Just before summarizing the policy alternatives of Chang and Grabel (2004) a few pages ago, we drew the attention of the reader to ‘*the quantity*’ and ‘*the*

*quality' of the roles that the state is to undertake* within this scheme of alternatives. We hope now that our intention is clearer. Instead of fully relying on the market (and in obvious opposition to the orthodoxy), Chang and Grabel avowedly call for state intervention as comprehensively as possible. In this sense, their major thesis requires that the economy be regulated by 'the state' through deliberate initiatives of economic policy-making. Implicit in their thesis is the contention that the self-regulating market is a 'stark utopia', which has regularly failed historically and empirically. We concur with this contention. Moreover, our counter-thesis is not that 'the state' cannot assume so diverse a set of roles on the way to economic development. Indeed, we are in agreement with Chang and Grabel in two important respects:

- i) During their development processes, today's developed countries did not rely on self-regulating market, which they have been recommending to the now-underdeveloped countries through the trivial dictum of TINA.
- ii) The state can play an active regulatory role in reclaiming development.

The state may well harbor all the necessary capabilities of design and plan for implementing policies and attaining success regarding sustainable, stable and equitable development. However, *institutional integrity* of the state is nowadays being dismantled by the project of 'global governance'. For the first time in capitalist history, the 'commanding heights' of the world-economy are directly targeting 'the state', which they used to manipulate as an artificial means of distorting the 'the market' for oligopolistic/monopolistic profits. Therefore, what is directly at stake is 'the state' itself, which, in turn, remains the *last resort* for reclaiming development at the service of developing countries. On the other hand, so many roles falling upon 'the state' could be practically envisaged in a world full of welfare and developmental states, which would constitute an inter-state system that would befit not only the needs of the developing countries, but also those of the 'great powers'. However, history had already shown us that

the emergence of such a ‘global’ welfare and development policy requires beforehand a Great Depression followed by an unprecedentedly devastating World War, which, in turn is to usher in a Cold War. Such a ‘new deal’ could be taken seriously and carried out actually by the leading actors of the capitalist world-economy only in order to salvage and maintain capitalism-as-a-historical-world-system.

We live at a turbulent time when the neoliberal policies of the 1980s and 1990s are being legitimatized by an alleged need for ‘good institutions’. According to this new liberal thesis, the neoliberal policies would work, if ‘good governance’ could be maintained in the developing world. And such governance at a global level of tractability could be established only if ‘the state’ was transformed into an ‘efficient’ – market-like institution – backed by politically ‘independent’ decision-makers as well as institutions of ‘civil’ society. This is the essence of the so-called Post-Washington Consensus. Our thesis is simple: Such a state functioning like the market would totally lack capacities to make developmental policies.

We started this chapter with a discussion of the emergence of the First, Second and Third Worlds in the beginning of the postwar period. In the course of time, capitalism did not fail to resurrect itself from a possible collapse thanks to its artful management of these *dependent* worlds; first by means of state-led policies, then market-oriented ones. However, we must also confess that capitalism was also ‘artful’ in creating ‘independent’ worlds. Ironically, we close this section by drawing attention to the existence of a ‘de-linked’ Fourth World, which consists of the ‘least-developed’ regions together with ethnic and gender groups as non-state ‘herds’ of ‘inferior’ people. From the viewpoint of the capitalist First World, it is not even worthwhile to contact and exploit these extremely ‘unprofitable’ and ‘useless’ regions of the globe. If the radical implications of ‘governance’ are not taken into an equally radical account, capitalism may augment the number of its own ‘independent’ worlds up until its inevitable collapse.

## 2.5. From Development to Governance

“Over the last quarter of a century something fundamental seems to have changed in the way in which capitalism works” (Arrighi, 1994: 1). This is the opening sentence of Giovanni Arrighi’s *The Long Twentieth Century*. Our thesis relies on this *fundamental change*, which Arrighi (as well as many other people) claims to be taking place since the 1970s:

In the 1970s, many spoke of crisis. In the 1980s, most spoke of restructuring and reorganization. In the 1990s, we are no longer sure that the crisis of the 1970s was ever really resolved and the view has begun to spread that capitalist history might be at a decisive turning point (Arrighi, 1994:1).

In the light of Arrighi, let us first summarize some basic characteristics of and arguments about this *fundamental change* or *decisive turning point* in the functioning of world capitalism. First of all, it should be noted that international capital mobility has drastically increased since the 1970s (Sassen, 1988; Scott, 1988, Storper & Walker, 1989). But the direction of capital flows changed from the 1970s to the 1980s. 1970s were characterized by net inflows of capital to the Third World from the First World (Fröbel et al., 1980; Bluestone & Harrison, 1982; Massey, 1984; Walton, 1985), whereas a reversal of flows was witnessed in the 1980s (Gordon, 1988).

Secondly, the increase in the volume of capital flows and the reversal of their direction were accompanied by a discernible change in the mode of production and exchange of the capitalist world-system. For some authors, the so-called Golden Age of capitalism, which roughly corresponds to the 1950s and 1960s, was a period of ‘Fordist’ mass production; whereas starting from the 1970s onwards, there occurred a revival of the so-called systems of ‘flexible

specialization'.<sup>29</sup> In this vein, the so-called Regulation School defined the 'fundamental change' under consideration in terms of a structural crisis of Fordist-Keynesian regime of accumulation (Boyer, 1990; Jessop, 1990; Tickell & Peck, 1992). Keynesianism (as the mode of regulation) and Fordism (as the regime of accumulation) went hand in hand throughout the Golden Age. The former provided the necessary institutional framework for the latter to operate. The mode of Fordist mass production was argued to have reached its limits in the 1970s along with the decline of the mode of Keynesian regulation (De Vroey, 1984; Lipietz, 1987, 1988).

In this connection, while the Regulation School refrained from prognosticating about the heir apparent of Fordist-Keynesian capitalism, especially two studies drew attention to the transformation of organized capitalism into disorganized capitalism (Offe, 1985; Lash & Urry, 1987). In Arrighi's words, these studies described this process of disintegration as follows:

The central feature of "organized capitalism" – the administration and conscious regulation of national economies by managerial hierarchies and government officials – is seen as being jeopardized by an increasing spatial and functional deconcentration and decentralization of corporate powers, which leaves processes of capital accumulation in a state of seemingly irremediable "disorganization" (Arrighi, 1994: 2-3).

We should now note that this 'disintegration' process is the central theme of our thesis. From our point of view, the origins of the concept and model of 'governance', which has widely become the new mode of regulation of world capitalism since the 1990s, should be traced back to the above-described disintegration process that has been going on since the 1970s. We will discuss 'governance' in some detail in the next chapter; but it also seems useful in this connection to make some preliminary remarks. As we have already argued in the Introduction and as it will be clearer in the next chapter, we consider

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<sup>29</sup> 'Fordist' mass production is the system of "specialized machines, operating within the organizational domains of vertically integrated, bureaucratically managed, giant corporations"; whereas systems of 'flexible specialization' are "based on small-batch craft production, carried out in small and medium-sized business units coordinated by market-like processes of exchange" (Arrighi, 1994: 2).

‘governance’ along with Post-Washington Consensus as an ultra-liberal project that aims at dismantling the institutional structures of ‘the state’. As a pronounced concept and model of ‘regulation’, ‘governance’ is quite ‘young’; indeed, a ‘teenager’, if we take its birth year as 1989.<sup>30</sup> Even so, it seems to be the most mature stage of a global attack on the state-led institutional framework established by Keynesianism and Developmentalism during the 1950s and 1960s.

1970s represented the start of a radical change in world capitalism not only because there emerged a need for a change in the mode of regulation from ‘rigid’ Fordist mass production to ‘flexible specialization’ (in response to the declining rates of productivity and profits), but also because there emerged an inevitable *disharmony* between the economic and the political constituents of the international system as a whole. The impressive ‘material expansion’ (as an economic achievement) of the Golden Age was generated and maintained under ‘state-leadership’ (as a political determinant). If today we have ‘Golden Age’ as a historical term to pronounce, this is largely because ‘the economic’ and ‘the political’ was *harmonious* with each other along that period. In other words, the markets, rather than being left to *self-regulation*, were regulated by the states in that period. However, capitalism as a historical world-system has an inherent and secular tendency to create a *disharmony* (following the periods of harmony) between its economic processes and political institutions.

Indeed, capitalist phases of ‘material expansion’ are regularly followed by phases of ‘financial expansion’ (Arrighi, 1994).<sup>31</sup> Put differently, when the profitability from productive activities reaches its limits along with a satiation

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<sup>30</sup> It was the World Bank first to use the term in its current conceptual meaning in a report on Sub-Saharan Africa (World Bank, 1989).

<sup>31</sup> We should note that such recurrences of material expansion followed by financial expansion are not peculiar to postwar capitalism. Indeed, Arrighi (1994) demonstrates that this ‘secular trend’ has been prevailing within the context of capitalism as a historical world-system since the 1400s. Arrighi’s analysis largely relies on: i) Fernand Braudel’s conception of the capitalist world-economy from the fifteenth to the eighteenth century, ii) Karl Polanyi’s elaboration of the ‘nineteenth-century civilization’, and iii) Joseph Schumpeter’s prognostication on the future of capitalism, all of which are also our central sources of inspiration in this thesis, as will be evident while we build our own Institutional International Political Economy Perspective.

of the investment opportunities in physical capital, then the world-systemic capitalist engine starts to *re-cycle* the process in the direction of financial capital accumulation. These recurrent systemic *economic* shifts from physical to financial expansion (and *vice versa*) have to be accompanied by corresponding systemic alterations in the *political-institutional* framework, which serves as the formative mould without which the system cannot take shape. As such, the disintegration of *organized capitalism* (*dominated* by Keynesian/Developmentalist political institutions) into *disorganized capitalism* (*purified* from those political institutions) as of the late 1970s can well be considered as the first sign of ‘governance’ that would become the developmental remedy dictated to the less-developed countries from the 1990s onwards.

One more point concerning ‘governance’ should also be emphasized before we start to examine it in detail. It is quite noteworthy that ‘governance’ emerged out of the debates of the 1980s on the ‘crisis of the state’ in the Third World, and especially in Africa. As we noted in a previous footnote, ‘governance’ was coined as a term in a World Bank report on Sub-Saharan Africa in 1989. In this sense, ‘governance’ is a concept that is directly related to the developmental problems of the Third World. It implies that if ‘the state’ in the Third World were ‘artful’ enough to properly manage economic growth and development, then the Third World would get rid of its developmental problems. That is to say, the corruptive, wasteful and inefficient states pertinent to the Third World are said to be primarily responsible of its socio-economic backwardness. And then, the states and institutions in the First World are put forward as a model of anti-corruption, prudence and efficiency for the Third World to adopt.

Hence, as developed in the context of the Post-Washington Consensus during the 1990s, ‘governance’ is not a ‘neutral’ concept as far as the developmental problems of the Third World are concerned. The ‘commanding heights’ of the world-economy, most notably the World Bank (but also the IMF and the WTO), have been ordaining ‘*good governance*’ as the only way to achieve sustainable

growth and developmental success. ‘Good governance’ implies ‘good’ state institutions that are only found in the First World. In this scheme of things, what is dictated to the Third World is the *de-construction* of their traditional institutions and the *re-construction* of ‘Western’-type institutions. Putting aside the formidable aspects of this task to be accomplished by the Third World countries, we would like to draw attention to another important fact so as to unravel the ‘magic’ of ‘governance’. The Third World had developmental problems well before ‘governance’ was submitted as a magical formula in the 1990s. However, the *priority* was not generally put on the *absolute* need for ‘good institutions’ in the Third World before ‘governance’! Some modernization theorists had already emphasized the importance of politico-cultural conditions for development (Almond & Powell, 1965; Apter, 1965; Weiner, 1966), and the idea of a homogeneous path to development consisting of the same stages for all countries was already accentuated in the 1960s, as we discussed in the preceding pages. But, even though those theorists did not ‘fail’ to see that First World institutions were lacking in the Third World, their principal emphasis was not about the ‘import’ of ‘good institutions’ from the First to the Third World. So, the crucial question is: Why did *not* the ‘commanding heights’ of the world-economy suggest ‘good governance’ all along the difficult times of 1970s which ushered in a severe ‘international debt crises’ as of the early 1980s? Put differently, why did they wait for the 1990s to talk about the ‘goodness of governance’ in the First World?

Our answer to this question constitutes the premise of this thesis: ‘Governance’ is an ultra-liberal project obsessed with maintaining the ‘smooth’ operation of the ‘self-regulating market system’ at all levels of the capitalist world-economy. It is a capitalist ‘orthodox’ veil concealing the true possibilities of development. It not only deflects the ‘heterodox’ agendas for development, but also weakens the conventional anti-systemic movements by giving the impression that ‘underdevelopment’ can be overcome by means of ‘good’ *capitalist* institutions. 1990s must have been waited to ordain ‘governance’ since the ‘vagaries’ of the financial expansion phase that began in the 1970s took time to be ‘stabilized’

and ‘structurally adjusted’ all along the 1980s under the neoliberal Washington Consensus. In other words, origins of ‘governance’ as an ultra-liberal project is to be found in the 1970s when the ‘organized capitalism’ of Keynesianism/Developmentalism was started to be disintegrated into a ‘disorganized capitalism’ as required by the expansionary needs of financial capital. 1970s represented the ‘infancy’ of a financial expansion phase within the capitalist world-economy, during which ‘development of underdevelopment’ set in once again: The Third World’s debtor position *vis-à-vis* the First World ‘developed’ dramatically. 1980s were the years to reap the benefits of 1970s for the First World: Neoliberal stabilization policies and structural adjustment programs ‘helped’ the Third World re-pay its debts. And, it was in the 1990s that ‘stabilization’ and ‘structural adjustment’ were to be extended to global level in the name of ‘governance’. From this point of view, ‘governance’ can be considered as the final sequence of a long-term global project that attempts to permanently eliminate the ‘state-market dichotomy’ for the sake of announcing the ‘the end of history’. We hope this contention of ours will be clearer in the next chapter.

## CHAPTER 3

### GOVERNANCE ISSUES: THEORETICAL BACKGROUND AND PRACTICAL IMPLICATIONS

#### 3.1. An Overture to ‘Governance’ as Conceptual Device and Socio-Economic Project

In an effort to understand ‘governance’ as a contemporary conceptual category and a new socio-economic model (at different levels of analysis such as firms, public institutions, nation-states, the global system, etc), it is a good idea to start with remembering the ‘division of labor’ that took place among principal social sciences in the nineteenth century. Up until the nineteenth century, in its emergent form, ‘social science’ constituted a comprehensive inquiry into ‘social reality’ in terms of the interconnectedness of economic and politico-cultural phenomena. However, from about the second half of the nineteenth century onwards, social science was compartmentalized into major separate fields such as sociology, political science, economics, etc. In the course of time, (civil) ‘society’ was relegated to sociology as its main subject-matter, ‘the state’ as that of political science, and ‘the market’ as that of economics. Along with such an artificial ‘division of labor’, a fictitious disciplinary specialization was inevitable among the domains of social research: Sociologists, political scientists and economists started to study their ‘isolated’ subject-matters, as if they were independent from each other. This way of studying social reality in separate boxes has become an institutionalized structure within the departments of academia along the twentieth century. In the context of the mainstreams of the disciplines of social sciences, ‘the sociological’, ‘the political’ and ‘the

economic' have been studied by disciplinary specialists as more or less distinct phenomena.

Of course, dissenters have always existed to criticize such disciplinary specialization, which avoided seeing the whole picture as far as social reality is concerned. In this regard, one of the most outstanding examples of dissent is due to Immanuel Wallerstein, who is not only a leading social thinker of our times, but also the originator of the so-called World-Systems Analysis. Along his intellectual and academic life, Wallerstein has regularly called for the reconstruction of a 'historical social science' that would put an end to the compartmentalization of disciplines in the social sciences (Wallerstein, 1987, 1991a, 1997, 2005: 1-22). Wallerstein's 'holistic' social-scientific aspirations are especially considerable in the face of the rise of the 'governance paradigm'. This is so, because understanding 'governance' is a matter of studying 'society', 'the state' and 'the market' together. In other words, the interactions among society, the state and the market all together form and define the domain of 'governance'. From this point of view, social, political and economic meanings and implications of 'governance' should be examined (at national and international levels) as the integral parts of an encompassing whole within the context of the existing world-system.

Governance is quite a new concept that seems to suggest a new politico-economic organization of society at national and international levels. That is to say, governance is still an ambiguous conceptual model, which seems to tell us about *how* 'the social', 'the political' and 'the economic' *should* interact with each other rather than how they actually do so. As such, governance can be regarded as a politico-economic project (that is to be socially materialized) rather than an existing social reality. If this is so, we had better analyze governance in terms of revealing its projected aims. Hence, we approach governance as the set of items of a 'blueprint' for the re-organization of society, the state and the market in a world-system where the so-called 'globalization process' necessitates the re-structuring of these three 'embedded' domains of

human life. For this reason, we will analyze this project in terms of its economic, political and social implications. We will then interpret these implications all together to reach a description of ‘global governance’ as the ultimate aim of a world-systemic project, which is to be materialized for the ‘globalization process’ to work in accordance with the wants and needs of the ‘commanding heights’ of the world in which we live.

In the context of global governance, the ‘commanding heights’ of the world-system (to which we will refer quite frequently in this study) are occupied mainly by such international economic organizations as the World Bank, International Monetary Fund (IMF), World Trade Organization (WTO) as well as transnational establishments such as the United Nations (UN), Organization for Economic Cooperation and Development (OECD), European Union (EU), and of course multi-national corporations (MNCs). In this respect, the term ‘governance’ was coined in its contemporary meaning by the World Bank (1989) in the context of a report on Sub-Saharan Africa as a remedy to a so-called ‘crisis of the state’ in the region. The Bank attributed the chronic socio-economic backwardness of the region to ‘bad governance’, so to speak. ‘Good governance’ was proposed as panacea for the inherent weakness and inability of ‘the state’, which was used to fail to regulate socio-economic processes properly. Governance was defined to be the manner through which the political power was to be exercised for carrying out national affairs. This was a first attempt on the part of the World Bank to re-consider state-market-society relationships so as to replace ‘state-society’ and ‘state-market’ antagonisms with harmonious associations among ‘the political’, ‘the economic’ and ‘the social’. As such, governance has emerged as a model proposal that envisaged structural changes in the mechanisms of ‘the state’ *vis-à-vis* the economy and society. For socio-economic development, the state should share its government capacity with the market actors and non-governmental organizations. In its subsequent reports, the Bank has continued to contribute significantly to the development of the term as a fashionable concept (World Bank, 1992, 1994, 1997) along with the support of a UN-funded *Commission*

of prominent statesmen (Commission, 1995). The IMF started to give heed to ‘governance’ in the form of ‘strings attached’ to the conditionality of its stand-by agreements. In their official publications and established practices, EU and OECD have started to pay attention to accentuate the need for various forms of ‘governance’. Free-trade-friendly rules and regulations set by the WTO have constituted the required ‘governance’ links between nation-states and international markets.<sup>32</sup>

Even though ‘governance’ was formally pronounced as a conceptual model for the first time in the late 1980s, its origins can be traced back to the devastating oil crises of the 1970s. Late 1970s marked the end of state-led agenda for welfare and development. Tenets of welfare policies and developmental states along with the strategy of import-substituting industrialization were then gradually replaced by outward-oriented free market solutions, privatization and deregulation (as we have already elaborated in the previous chapter). The World Bank and the IMF, backed by the White House, started to dictate a neoliberal recipe for structural adjustment and stabilization throughout the 1980s. This so-called Washington Consensus implied an obvious dichotomy between the state (‘the political’) and the market (‘the economic’). The crises of the 1970s were then attributed to the inefficiency of welfare and developmental states. Political institutions were not only corruption-prone and cumbersome, but also powerful obstacles for the self-regulation of market processes. In this vein, the role of the state in the economy along with all its intervention tools and re-distributive mechanisms was to be minimized so that the ‘efficiency’ and ‘dynamism’ of free market processes could be duly maintained. Thus, the neoliberal 1980s entailed the revival of ‘laissez faire capitalism’ following the death of state-led (managed) capitalism.

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<sup>32</sup>In Bayramoğlu’s book (2005: 36-78), the reader can find a thorough discussion of the contributions of international organizations and supra-national formations (such as the World Bank, the IMF, World Trade Organization, OECD, United Nations, and the European Union,) to the development of ‘governance mentality’. For our own purposes, we will focus upon World Bank’s conception of ‘good governance’ in section 3.4.

The forty-five-year old politico-economic structure of the bipolar world came to an end along with the collapse of the USSR in 1989.<sup>33</sup> Some scholars concluded hastily that the collapse of Soviet-type socialism implied not only the end of the Cold War, but also the decisive victory of the free market over central planning. However, this liberal victory was rather weird in the sense that it was also considered the ‘end of history’ *per se* (Fukuyama, 1992) as well as the end of ‘class conflict’ to be replaced by the remaining possibility of ‘clash of civilizations’ (Huntington, 1996). To be sure, the end of bipolarity in the world entailed an urgent need for establishing a new world order. Indeed, from the early 1990s onwards, Washington Consensus has re-defined itself and dictated policies so as to shape and manage such a ‘new international economic order’. The so-called ‘globalization process’ has always constituted the baseline of neoliberalism. In the meantime, the Washington Consensus had to transform itself into a so-called Post-Washington Consensus. In the face of the globalization process, the neoliberal agenda has been applied by many countries, ultimately resulting in major crises during the 1990s. However, the advocates of the Washington Consensus have kept putting the blame on the state. Their contention was that the state, whether minimized or not, is wasteful, inert and inefficient in its conventional construct. It was on this account that the concept of ‘governance’ has turned out to become the new shibboleth adopted by the commanding heights of the world-system within the emerging Post-Washington Consensus. In short, neoliberalism can be divided into two subsequent periods as the Washington Consensus and the Post-Washington Consensus. Then the former should be identified with the recipe of ‘less state and more market’ (in terms of an obviously dichotomous conception of the state and the market as mutually exclusive phenomena). The latter, however, should be identified with ‘governance’ (in terms of a seemingly associative conception of the state and the market as integral parts of a whole).

The rise of neoliberalism as the dominant ideology to determine the politico-economic processes at national and global levels was accompanied by a new

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<sup>33</sup> It is an interesting coincidence that the World Bank, in the same year, formally pronounced ‘governance’ as a remedy to the chronic weakness of the state in Sub-Saharan Africa.

social-scientific tendency in the academic community: Rejection of traditional dichotomies in social sciences: i) ‘market-state’ dichotomy in economics, ii) ‘society-state’ dichotomy in sociology, iii) ‘public-private’ dichotomy in political science and public administration, and iv) ‘anarchy-sovereignty’ dichotomy in international relations (Jessop, 1998). These traditional dichotomies implied a mutual exclusiveness between the respective domains. That is to say, before the neoliberal era, separate disciplines of social sciences, more often than not, tended to conceptualize ‘the market and the state’, ‘society and the state’, ‘the public and the private’, and ‘anarchy and sovereignty’ as antagonistic spheres of social reality. However, mainstreams of social sciences have started to transform these antagonistic conceptions into seemingly harmonious associations especially along with the emergence of Post-Washington Consensus and the rise of ‘governance’ as a magical formula to get rid of ‘the crisis of the state’.

In this connection, the rationale behind ‘governance’ can be considered as the re-arrangement of state-society relationships in line with economic logic (Kiely, 1998; Klicksberg, 1993; Kreudren & Mierlo, 1998). For socially beneficial economic outcomes, governments should be re-organized as an ‘entrepreneurial’ unit so that a competitive environment among public institutions can be established (Osborne & Gaebler, 1993). The way to accomplish this task is the ‘marketization’ of the existing state structures from within (Lane, 1997). In other words, ‘the market’ as a supposedly efficient economic institution should serve as a model for re-organizing the domain of ‘the state’ as “flexible government” (Peters, 1996: 37). According to the conventional paradigm of state-society relationships, society is governed by the state in the context of an ‘artificial’ set of socio-political rules: The state dictates social arrangements vertically downwards. By the adoption of the governance model, this conventional paradigm is being challenged by means of a recipe, which necessitates the involvement of non-state organizations and politically independent public institutions in ‘government’ affairs in the context of a ‘spontaneous’ set of socio-economic rules: The state should carry out

social arrangements through horizontal communication networks that connect socio-economic actors to governmental decision-making processes.

In other words, governance implies a kind of ‘self-organization’ that encompasses state-society relationships. Such self-organization is reminiscent of the phenomenon of ‘spontaneity’, which is said to pertain to market processes. Following the construction of a system of ‘new public management’, civil society organizations and politically independent regulatory institutions should become the ‘natural’ participants in socio-economic decision-making processes by means of ‘public governance’. It is by way of such self-organization that spontaneous efficiency of the market can also be achieved within the mechanisms of the state, which is otherwise full of inefficient and burdensome structures. Following the rise of ‘New Public Management’ and backed by ‘New Institutional Economics’, such a new liberal recipe has been in the making in the form of the ‘governance model’ since the early 1990s. We now turn to the theoretical underpinnings and practical connotations of governance as a conceptual device and a socio-economic project.

### **3.2. ‘New Institutional Economics’ as Theoretical Background of Neoliberal ‘Governance’**

In the last quarter of the twentieth century, two social-scientific sub-disciplines gained ascendancy along with the pre-dominance of neoliberalism and governance. The first one was New Institutional Economics (NIE), which especially helped the World Bank legitimate its governance recipe that envisages structurally new roles for the state in juxtaposition to the market.<sup>34</sup> The second one was the so-called ‘New Public Management’ (NPM) that replaced the traditional system of ‘public administration’ in the 1980s, and then paved the way for the emergence of the notion of ‘public governance’ in the 1990s. Hence, how these two sub-disciplines contributed to the manifestation of ‘governance’ is important. We will start with NIE in this section and then proceed with NPM in the next. In order to understand the link between NIE

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<sup>34</sup> See Senalp (2004) for a thorough review of NIE and its link with global governance.

and neoliberal governance, we should first have a brief look at the original version of Institutional Economics as a quite old critique of neoclassical liberalism.

Institutional Economics in its original form was founded as a critical school of thought by Thorstein B. Veblen (1857-1929) and John R. Commons (1862-1945) at a time when neoclassical orthodoxy was prominently in the ascendant so as to become the mainstream in economic science. We have already argued in the beginning of section 3.1 that the liberal dominance in the history of economic thought was maintained by neoclassical economics. Liberal proposals had always remained to be the fundamental implication of neoclassical mainstream: Let ‘the market’ do, put ‘the state’ aside. In this respect, Original Institutional Economics (OIE) was not only critical of the market-friendly liberal accent of neoclassical economics, but also of its hard-core assumptions and static framework of analysis.

Some relevant aspects of the original institutionalist critique can be summarized as follows: i) In mainstream economic theory, conception of ‘the market’ is problematic. Market is treated as the consequence of an ‘efficient natural order’, which, in turn, implies that non-market institutions (such as ‘the state’) are artificial and inefficient. For institutionalists, market is also a man-made social institution (like the state), and freeness of the market does not necessarily imply efficiency, ii) The mainstream premise that the market is an open space of (economic) freedom is problematic. Market is treated as if it were free of institutions by nature; and as such, all other institutions are regarded as restrictive structures that avoid the free operation of the market. For institutionalists, however, the market cannot operate on its own in the absence of regulatory institutions, without which the market actors would lack the indispensable guidelines that coordinate their behavior. In this sense, the market does not automatically allocate resources, but enables resource allocation thanks to the existence of institutions, iii) The hard-core assumptions and the framework of neoclassical analysis are problematic: Rational (optimizing)

economic behavior, perfect information at no (transaction) cost, equilibrium-centered static analysis, etc. For institutionalists, economic activity takes places within a socio-cultural context, which affects and structures individual choices. In other words, individual economic agents do not exist in a vacuum so as to behave in an unboundedly rational way. Moreover, economic agents do not acquire market-related information at no (transaction) cost since market exchange entails the use of particular market-related institutions, the access to which is not for free. Finally, the comparative-static framework of equilibrium-centered analysis cannot properly explain the inherent dynamism in the real economic world, which is characterized by the interaction of incessant changes in technology, economy and institutions. Indeed, OIE favors an evolutionary (rather than static) research program that allows for the analysis of the dynamic nature of socio-economic phenomena.<sup>35</sup>

In short, OIE can be regarded as a polar alternative to the neoclassical research paradigm in many respects (Özveren, 1998). The latter is a type of economics without institutions, whereas the former chooses to concentrate upon institutional change and its effects on the economy as its main subject-matter. What about NIE? What is the major difference between OIE and NIE? We can answer this question in a clear-cut way: Whereas OIE defined and constructed itself as *incompatible* with neoclassical theory, NIE was developed with the premise that a synthesis is possible between OIE and neoclassical tenets.<sup>36</sup> In other words, NIE involves an attempt to incorporate the examination of institutional change into neoclassical framework of analysis while keeping the neoclassical hard-core intact. As such, it is not surprising to observe many cases of disagreement between the proponents of OIE and NIE (Groenewegen *et al.*, 1995: 474), which are, also for us, considerably different research programs.

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<sup>35</sup> See Hodgson (1988) for a detailed discussion of OIE *vis-à-vis* the neoclassical mainstream (and other variants of liberal economic thought).

<sup>36</sup> In this respect, a well-known source is the book by Rutherford (1994), who compares and contrasts OIE and NIE in detail.

We argue that NIE is not a more modern version of OIE, but a modified version of neoclassical theory. NIE can be regarded as ‘new’ only because it extends the research domain of mainstream economics by utilizing neoclassical tools to analyze the subject-matters of OIE. One major distinctive characteristic of OIE is to conceptualize the behavior of individual economic agents as the consequence of socio-culturally formed habits and routines. From this point of view, OIE is not compatible with the hard-core assumption of neoclassical theory that agents behave freely (i.e., free from institutions) so as to show up as atomistic (isolated) economic beings with *somehow* rational choices. However, NIE, more often than not, tends to retain this core premise of neoclassical economics.<sup>37</sup> Therefore, individual economic behavior is socio-culturally determined in OIE; whereas it still tends to occur in a ‘vacuum’ as the resultant of rational choice making in the general context of NIE, which has an inclination to conceptualize social institutions as the consequence of the optimizing behavior of the economic individual (Rutherford, 1994: 443-444). Even though how the individual agents behave is determined by the existing institutional setting, the changes in individual behavior are hardly attributable to changes in institutions. Hence, one can argue that NIE remains within the methodologically individualist context of (liberalism-oriented) schools of economics (such as the neoclassical theory and Austrian school), while OIE

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<sup>37</sup> This is not to say that NIE has no differences with respect to neoclassical theory. Indeed, the peculiarity of NIE comes from dropping some unrealistic assumptions of neoclassical economics. First of all, there is the neoclassical assumption that there exists perfect information on the market at no (transaction) cost. With this assumption, ‘institutions do not matter’ in the neoclassical world. However, NIE clearly drops this assumption and this makes a fundamental difference in the sense that ‘institutions matter’ in the presence of imperfect information and non-zero transaction costs. This also involves the abandonment of the neoclassical assumption of ‘instrumental rationality’ (North, 1992). Indeed, as one of the originators of NIE, Oliver E. Williamson (1987: 173-174) clearly states that ‘Transaction Cost Economics’ (as a major branch within the research program of NIE) rests upon ‘bounded rationality’ (rather than unbounded or instrumental rationality). Moreover, the neoclassical conclusion that free markets yield an efficient allocation of resources relies on some assumptions like the presence of perfect competition and the absence of externalities, etc. However, it is very difficult to observe the existence of such conditions in the real world. Even so, neoclassical liberalism keeps on proposing free market policies (*i.e.*, policies that are free from state involvement) for economic success, as if these conditions are practically met. NIE is also critical of this aspect of the neoclassical theory (Posner, 1993: 74-75). Envisaging particular roles for ‘the state’ in real world economies; NIE, however, does not attack on the market logic of neoclassical liberalism. NIE’s criticism is basically intended for extending the neoclassical logic so that institutional change can also be analyzed and explained by means of neoclassical tools (Demir, 1996: 205).

clearly rejects such a one-sided causality that runs from ‘the individual’ to ‘the social’. This is by no means an ignorable difference, which situates OIE and NIE wide apart from each other.<sup>38</sup> We will return again to the difference between these two schools of economics in the end of this section. Now, let us pose the following question and then provide an answer to it: How did NIE contribute to the development of ‘governance’ as a concept and model?

In this regard, we should keep in mind that NIE emphasizes the significant role of the institutions of the state in regulating the market (Rhodes, 1997: 78-79). On the one side, NIE envisages a kind of ‘partnership’ between the state and the market, unlike neoclassical economics and other types of conventional liberal approaches (which subscribe to the idea of a dichotomy between these two institutions). On the other side, the contemporary significance of NIE is heightened by the rising general interest in non-state institutional mechanisms (such as strategic and commercial unions, business networks, and specific markets that are organized within specific entrepreneurial groups), which coordinate economic activity in the context of a non-hierarchical setting (Jessop, 1998: 31). Needless to say, conventional state structures and mechanisms involve ‘hierarchy’ as opposed to the (supposedly) non-hierarchical processes of the market. At this point, if we recall that ‘governance’ is a conceptual model that envisages a non-hierarchical partnership between the state and the market, then NIE’s contribution can be summarized as follows: NIE has provided conceptual support to the ‘governance reforms’ that have been dictated and made from the 1990s onwards especially in the less-developed countries in the name of maintaining the efficiency of market processes.<sup>39</sup> In other words, NIE has backed governance in terms of accentuating the need for: i) the

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<sup>38</sup> In section 5.4 of this study, we will adopt and utilize two social-scientific principles (*i.e.*, principles of ‘dominance’ and ‘impurity’), which are derivatives of the ‘open-system perspective’ to be found in OIE, and absent in the methodologically individualist neoclassical economics, Australian school as well as NIE. In the open-system perspective, not only ‘the individual’ shapes and changes institutions (*i.e.* ‘the social’), but also the institutions shape and change ‘the individual’. As such, OIE can be regarded as incompatible with all these schools of economics, which are characterized by the one-sided priority given to ‘the individual’, and which is presumably due to their shared liberal bent.

<sup>39</sup> Most notably, World Development Report of the World Bank (1997) bears the earmarks of NIE.

marketization of state structures and mechanisms (the administration of which are then carried out by market logic); and thus, ii) the re-organization of social life in accordance with market processes (Güler, 2003: 99). *But then why and how have the analytical conclusions of NIE entailed the marketization of the state for the achievement of good socio-economic performance?* To answer this question, let us take a look at the tenets of NIE as developed by its originators.

First of all, NIE's contributions come basically from its analysis of the effects of 'transaction costs' and 'property rights' on economic structure and performance. Indeed, NIE comprises 'Transaction Cost Economics' and 'Property Rights Economics' (along with 'New Economic History') as its major sub-schools. The well-known seminal articles by Ronald Coase (1937, 1960) followed by the influential works of Oliver E. Williamson (1975, 1981, 1985, 1987, 2000) and Douglass C. North (1973 [joint with R. P. Thomas], 1990, 1994) are conventionally regarded as the leading contributions to the emergence and development of NIE. The International Society for the New Institutional Economics, which held its first meeting in St. Louis in 1997, was also founded by the efforts of these three leading figures.

In his now-classic 1937 article "The Nature of the Firm", Coase attempted to explain the reason why there exist numerous firms in the economy and why economic activity is *not* exclusively carried out on the market through the free interaction of autonomous and self-employed participants who make contracts freely with each other. In other words, why is production carried out by hiring employees within the context of the firm as an organizing unit, and why does *not* it take place exclusively in the context of market exchange through contracting out certain tasks? During the time of Coase, the neoclassical answer to this question was as follows: The efficiency of the market entails a general economic consequence whereby it is always less costly to contract out tasks on the market than to hire employees to carry out those tasks within the firm. Moreover, neoclassical theory has conceptualized the firm merely in terms of a production function that transformed inputs into an output by means of an

existing technology. Coase's contribution, in this respect, was to pave the way for the development of an important concept, which later came to be the basic unit of analysis in NIE: That is the concept of 'transaction costs'. In this respect, Williamson's summary of Coase's contribution is noteworthy:

Rather than take the organization of economic activity in firms and markets as preexisting, defined largely by technology, Coase described firms and markets as alternative means for doing the very same thing. The allocation of activity as between markets and hierarchies was no longer taken as given, but needed to be derived. Should a firm make or buy? Which transactions go where and why? The firm was reconceptualized for these purposes as a governance structure (which is an organizational construction)" (Williamson, 1998).

Even though Coase did not directly use the term 'transaction costs' in his 1937 article, he discussed and utilized the concept of "costs of using the price mechanism" as an explanatory variable to determine the circumstances under which particular economic tasks would be accomplished by firms (via hiring employees) and when they would be carried out on the market (via contracting out). Later on, the term 'transaction costs' has been generally defined as the 'costs of using the market' in line with Coase's seminal article. The rationale behind dealing with transaction costs is that, in juxtaposition to the (production-cost-related) market prices of goods and services, there are always additional costs of acquiring goods and services through market exchange. That is to say, the market prices reflect the 'production costs', but *not* the costs that arise from the exchange activity on the market (after production). Neoclassical economics have preoccupied itself with 'costs of production' in terms of its conventional theories of price determination. However, Coase drew attention to the fact that there are also significant 'costs of exchange'.<sup>40</sup> Here, the point is that if the

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<sup>40</sup> Exchange on the market entails basically three types of transaction costs: i) Search and information costs (as the costs incurred for finding out whether a good or a service is actually available on the market, which seller has the best price, which brand has the best quality, etc.), ii) Bargaining costs (as the costs incurred between the parties to the transaction to reach an agreement and to formalize the agreement by a contract), iii) Policing and enforcement costs (as the costs incurred to ensure that the parties to the transaction comply with the terms of the contract, and to appeal to the legal system in cases of the violation of the contract). In this regard, 'transaction costs' can be defined as the costs that arise in the context of the exchange

market actually worked with perfect information with no cost (as theorized by the neoclassical mainstream), then transaction costs would be zero. But if information is incomplete (that is, if it is costly to have access to market information), then transaction costs are positive so that they must also be examined as a subject-matter in economic analysis. In this respect, ‘transaction costs’ in economic systems turned out to be perceived as the counterpart of the phenomenon of ‘friction’ in physical systems (Williamson, 1985: 19).

What about the implication of Coase’s 1937 article? Why do firms exist as not only production units, but also as “governance structures” that operate so as to replace the ‘free’ coordination task of the market? The answer to this question is self-evident in Coase’s contribution: If there exist ‘costs of using the market’ (in addition to the costs of production), then the firms as organizational units arise from the need to keep those costs as low as possible. In other words, *raison d’être* of firms is to minimize transaction costs that occur inevitably in the case of market exchange. The implication is clear: Those firms which are able to decrease their transaction costs will have a higher chance of survival and success.

Some decades later, North and Wallis (1994) extended this implication of Coase’s contribution on firm behavior to the general analysis of institutions. Indeed, the following excerpt from Douglass C. North clarifies the implications of what we have discussed so far:

Institutions are formed to reduce uncertainty in human exchange. Together with the technology employed they determine the cost of transacting (and producing). It was Ronald Coase (1937 and 1960) who made the crucial connection between institutions, transaction costs and neo-classical theory. . . . The neoclassical result of efficient markets only obtains when it is costless to transact. When it is costly to transact, institutions matter. And because a large part of our national income is devoted to transacting, institutions and specifically property rights are crucial determinants of the efficiency

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of the ownership rights of economic values between individual economic agents (Eggertsson (1992: 14).

of the markets. Coase was (and still is) concerned with the firm and resource allocation in the modern market economy; but his insight is the key to unraveling the tangled skein of the performance of economies over time; which is my primary concern (North, 1992: 4).

The broader implication of Coase's work is that those institutions which decrease transaction costs are more desirable. This brings us to another important question: Firms exist *vis-à-vis* the market in order to decrease transaction costs; but why does then the market exist as a coordination process of economic activities *vis-à-vis* the possible alternative of non-market exchanges, which can be carried out in the context of non-market institutions and non-contractual relationships (such as 'trust', socio-cultural bonds as between friends, family members, etc.)? The answer to this question is essentially the same as the answer to the reason why firms exist *vis-à-vis* the market: The market arises and exists since it economizes on transaction costs as compared to non-market exchanges. In other words, just as firms exist since they are less costly with respect to the transactions on the market, the market also exists since it is less costly with respect to non-market transactions. Hence, the highest transaction costs are incurred in the case of exchanges within non-market institutions, and the lowest ones within firms (Hodgson, 1988: 180-181).<sup>41</sup>

In this connection, our interpretation of this Coase-originated NIE-logic goes as follows: The efficiency of the market and non-market institutions can be enhanced by complementing them with "governance structures" pertaining to firms. In other words, the performance of the economic system as a whole can be maximized by minimizing the transaction costs that arise from the market

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<sup>41</sup> But if firms economize better than the market on transaction costs, then why are not all economic activities carried out in the organizational context of firms so as to put an end to market exchange? Coase's answer to this question involved the concept of 'decreasing returns to scale': As firms become larger and larger by increasing their scales of production, the coordination and management of the structures within them become more and more complicated. The unit costs tend to increase as firm-level governance becomes too complex. That is to say, 'decreasing returns to scale' at firm-level governance serve as a constraint on completely eliminating the use of the market. However, the same line of reasoning is not likely to be valid in the case of exchanges on the market and in non-market institutions. That is to say, non-market institutions can be structurally converted into market-like institutions by taking the governance structures at firm-level as a model.

and non-market institutions. Therefore, sustainable economic success relies on the re-organization of the market and non-market institutions after the mirror image of firms as “governance structures” that minimize transaction costs. Hence, the market and non-market institutions must be re-arranged and regulated so that the transaction costs incurred by firms (and presumably by consumers) are minimized. Interestingly, Arrow (1969: 48) had once defined ‘transaction costs’ as the “costs of running the economic system”. It is now time to recall that NIE is generally said to have backed the contemporary model of neoliberal governance (at national and international levels). But, originally, Coase focused upon firm-level governance (rather than socio-economic governance at national or international levels). Hence, it is at this point where we should discover a connection between ‘firm-level governance’ and ‘governance at all levels of a global world economy’. Firms as economic institutions can succeed by minimizing the transaction costs that arise from the market. Similarly, the market economy as an economic institution can perform better by minimizing the transaction costs that arise from non-market institutions such as ‘the state’.

Put differently, firm-level governance can serve as a good model for the efficient operation of socio-economic systems at all levels of the global economy. And, this, of course, entails the conversion of non-market institutions into firm-like governance structures. It is in this respect that NIE has backed the neoliberal ideas of ‘flexible government’ (Peters, 1996: 37) and ‘the state as an entrepreneur’ (Osborne & Gaebler, 1993) so as to pave the way for the ‘marketization’ of the existing state structures (Lane, 1997) in accordance with the organizational ‘working rules’ to be found in firms. In sum, it may be impossible for ‘firm-level governance’ to completely eliminate market exchange (due to the emergence of ‘decreasing returns to scale’ when firms become too big); however, it can well be possible for ‘market-level governance’ to completely eliminate non-market institutions, which are the major source of highest transaction costs that paralyze the efficient self-regulation of the market.

This is what we understand from the neoliberal concept and model of governance after an analysis of this term from a NIE-viewpoint.

To be clearer, for efficient regulation of ‘the market’; ‘the state’ is given a key role by NIE due to its political capacity to affect transaction costs and to protect and enhance property rights. If ‘governance’ is the re-organization of ‘the state’ so as to construct a *flexible friend* to ‘the market’, it entails the creation of ‘public entrepreneurs’ such as politically independent regulatory institutions, market-based agencies of civil society, and ‘the state’ itself as the profit-making seller of traditional public services. All such ‘public entrepreneurs’ facilitate and protect the self-regulation of the market since their working rules are defined and constructed in accordance with the profit-maximizing behavior of typical firms as market participants.

It should now be clear that NIE is a type of economics that relies upon the minimization of transaction costs at the levels of firms, market economy, and non-market institutions. In this regard, alternative modes of organization determine the nature of governance structures at all levels. The efficiency of these alternative modes of organization should be assessed according to the criterion of “transaction-cost economizing” (Williamson, 1987: 199). As such, NIE provides a framework of ‘comparative-institutional strategy’, by way of which the best mode of socio-economic organization can be determined among alternatives. Most notably, putting some standards and rules in practice has proved to be conducive to economic performance. For instance, from a historical perspective, at times when states adopted, utilized and maintained well-defined standards and rules to establish price stability, transaction costs tended to fall in general, whereas unpredictable inflation in the absence of such standards and rules usually led to higher transaction costs (Eggertsson, 1992: 16). Like this, there are always important roles to be played by the state as far as economic development is considered to be a matter of minimization of transaction costs. In this regard, the role of the state can be summarized as establishing and maintaining ‘rule of law’ in the context of well-protected

‘property rights’. But, rule of law cannot automatically lead to good economic performance. Rule of law can provide a benign socio-economic environment for minimization of transaction costs; but for transaction costs to be minimized, they must be measurable in the first instance. At this point, we come back to the Coasian distinction between production costs and transaction costs.

In the course of time as NIE developed, production costs have been referred to as ‘transformation costs’ since production involves the ‘transformation’ of physical inputs into an output. On the other side, ‘transaction costs’ have been defined as the costs incurred during the ‘transfer of property rights’ from one individual to another. The major difference between ‘transformation costs’ and ‘transaction costs’ come from the fact that the former are measurable and calculable, whereas the latter are not so. And if transaction costs are not measurable and calculable, then it is almost impossible to minimize them in a rational way. The solution to this problem is to determine the reason why transactions costs are so difficult to measure. The major reason is that transaction costs arise most frequently in the case of non-market activities.<sup>42</sup> Hence, if non-market transactions are converted into market transactions so that they can be carried out in accordance with market logic, then transaction costs can be measured and calculated, like the ‘transformation costs’ (North & Wallis, 1994: 612).<sup>43</sup> This is an important connection where the state should assume its ‘governance’ role of putting necessary standards, rules and regulations into practice so as to carry non-market transactions into the domain of the market.

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<sup>42</sup> From this point of view, not only the expansion of the ‘transformation sector’, but also that of the ‘transaction sector’ accompanies economic growth and development. For instance, it is quite difficult to measure the transaction cost incurred by a person who, on his own efforts, tries to find a suitable house for rent. However, if this person tried to find the house by going directly to an estate agent, then the fee paid to the agent would serve as a good measure of the previous transaction cost involved (Demir, 1996: 214-15).

<sup>43</sup> While firms grow in terms of their scales of production, they also create new transaction costs from within their own complicated structures of governance, such as the loss of control over production, the alienation of the employees with respect to the workplace and employers, etc. In this respect, Wallis & North (1987) calculated that the share of the ‘transaction sector’ grew from 25 percent to 45 percent of the GNP in the American economy from 1870 to 1970 (cited in Demir, 1996: 220).

In this respect, like ‘transaction costs’, ‘property rights’ show up also as an important unit of analysis in the general context of NIE. Unlike the standard neoclassical theory, the school of Property Rights Economics under the rubric of NIE brings ‘property rights’ into economic analysis as a determinant of economic structure and performance. ‘Property rights’ can be simply defined as the rights of individuals to utilize goods and resources (Eggersston, 1992: 33). As such, there is always a need for arranging and regulating the property rights. The system of property rights has been developed and maintained for this purpose. This system is a legal method of assigning and rationing the property rights to individuals. Hence, the system of property rights provides the individuals with the authority to use goods and resources. However, assigning a property right to someone entails depriving someone else of the same right since resources and available amount of goods in the economy are scarce. That is to say, a ‘public authority’ must always exist for the definition, legitimization, allocation and protection of property rights. Like in the case of putting well-defined standards, rules and regulations in practice for the minimization of transaction costs, the task to accomplish the maintenance of the system of property rights is also the responsibility of ‘the state’ as the intrinsic public authority (Alchian, 1977: 129). Here the point is that the enforcement and sanction power on the part of ‘the state’ is the principal determinant of the sustainability of the systems of property rights. If the state is powerful enough to make the individuals to comply with the terms of contracts in accordance with the established property rights, then economic activity will fasten and expand since transaction costs will be lower under such circumstances. Conversely, if the state is not powerful enough to enforce and maintain the system of property rights, then the resulting high transaction costs will decrease economic exchanges (Eggersston, 1992: 35). In this respect, one important conclusion that can be derived from Property Rights Economics is that well-defined and protected property rights will yield lower transaction action costs, which, in turn, will be conducive to economic performance.

Here is not the place to get into a thorough analysis of the sub-schools of NIE. It is sufficient for us to reveal the link between NIE and *neoliberal* ‘governance’. The essence of such a link has already been discussed in the previous pages in this section. Now, to visualize this link from another point of view, we will conclude this section by turning to the connection between NIE and John R. Commons, who is conventionally regarded as the co-founder of OIE along with Thorstein B. Veblen. It is generally agreed that, in the main development path of NIE, institutionalism of Commons was far more influential than that of Thorstein B. Veblen. Veblen’s socio-culturally conscious institutionalism serves nowadays as a major source of inspiration for (what may be called as) ‘the contemporary versions of OIE’, such as Hodgson (1988). On the other side, Commons’s institutionalism involved detailed analyses of such concepts as ‘scarcity’, ‘conflict of interests’, ‘working rules’, ‘collective action’, ‘transaction’ and ‘property rights’, which, in turn, constitute the very subject-matters of NIE. If there is a link between NIE and the neoliberal model of ‘governance’ at different levels, then it seems a good idea to try to trace back the very origins of ‘governance’ to Commons.<sup>44</sup> We will thus conclude our discussion of ‘NIE’s link with governance’ in connection to Commons’s institutionalism (instead of merely attributing the origins of that link to Ronald Coase’s now-classic 1937 article, as is repeatedly done in the conventional literature). Once we realize that ‘Transaction Cost Economics’ and ‘Property Rights Economics’ are the two outstanding sub-schools under the rubric of NIE, we can then argue that NIE’s major contributions to the contemporary model of governance must have come from these sub-schools. And once we remember that Commons was one of the first economists to see the significance of

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<sup>44</sup> Commons’s major contribution to economics was to draw attention to the significance of the phenomena of ‘transactions’ and ‘property rights’. In neoclassical theory, transactions costs are zero by the assumption of costless perfect information, and property rights are taken for granted as a subject-matter that is outside of the scope of economic analysis. However, both of these concepts have been incorporated as consequential units of analysis into the domain of economics by the progress of two sub-schools of NIE – Transaction Costs Economics and Property Rights Economics. Of course, all these are *not* to claim that Commons was the true founding father of these sub-schools. Even though we must realize the conceptual link between Commons’s analysis and NIE’s sub-schools, Commons is generally regarded as outside of the sub-schools of NIE (Dugger, 1980: 41). However, Commons’s attitude towards the existing socio-economic system can still provide us with useful insights as far as the rationale behind the contemporary model of governance is concerned.

‘transactions’ and ‘property rights’ for economic analysis,<sup>45</sup> then we should go back to Commons’s attitude towards ‘economics as a science’ and his conception of ‘the legal foundations of capitalism’ in order to better understand governance. By doing so, we will concisely depict the divergence between Veblen and Commons in order to grasp: i) the difference between the ‘institutionalisms’ of OIE and NIE, ii) the difference between OIE and NIE in terms of their attitudes towards the institutions of capitalism, and iii) the liberal-capitalist roots of NIE.<sup>46</sup>

For a while, let us take a look at Commons’s *Institutional Economics: Its Place in Political Economy* to see his own understanding of an ‘institutional economics’:

Collective action, as well as individual action, has always been there; but from [Adam] Smith to the Twentieth Century it has been excluded or ignored, except as attacks on trade unions or as postscripts on ethics or public policy. *The problem now is not to create a different kind of economics – ‘institutional’ economics – divorced from the preceding schools, but how to give to collective action, in all its varieties, its due place throughout economic theory* (cited in Vanberg, 1989: 334, emphasis ours).

That is to say, Commons was neither calling for the overthrow of neoclassical mainstream nor proposing a completely new type of economics,<sup>47</sup> for both of which purposes Veblen had strived. Indeed, Commons’s objective was to draw

<sup>45</sup> The following excerpt from Oliver E. Williamson may demonstrate Commons’s influence on NIE: “John R. Commons prefigured this work [i.e., the studies on the governance of contractual relations in the 1970s] with his observation that ‘the ultimate unit of activity . . . must contain in itself the three principles of conflict, mutuality, and order. This unit is a transaction’ (1932, p. 4). Not only does transaction cost economics subscribe to the idea that the transaction is the basic unit of analysis, but governance is an effort to craft *order*, thereby to mitigate *conflict* and realize *mutual gains*” (Williamson, 2000: 599).

<sup>46</sup> Even though it is customary to regard Veblen and Commons as the co-founders of OIE, “[Commons] was not a pure institutionalist of the Veblenian stripe, choosing instead to focus on the operation of manmade institutions (such as regulatory or antitrust agencies) and how they are affected by private property, legislation, and court decisions” (Ekelund & Hébert, 1990: 472). A discussion of the link between Commons and Coase can be found in Goldberg (1976). All in all, we tend to think of OIE as owing much more to the socio-cultural contributions of Veblen than the ‘governance-related’ works of Commons (who somehow, and presumably unintendedly, paved the way for the development of Transaction Cost Economics and Property Rights Economics as sub-schools of NIE).

<sup>47</sup> This is an interesting similarity between Commons’s understanding of an ‘institutional economics’ and the tenets of NIE.

attention to the significance of ‘collective action’, which had been unduly overlooked by the mainstream economists for a long time as they preferred to emphasize the primacy of ‘the individual’ (*vis-à-vis* ‘the social’). In this sense, unlike Veblen’s, Commons’s ‘institutional economics’ aimed only at filling the punctures of ‘individualist’ neoclassical economics by juxtaposing a collectivistic viewpoint.<sup>48</sup> In passing, we should also denote the term ‘collective action’ as a crucial key-word in Commons’s conception of institutions. In his own words: “I now define an ‘institution’ as collective action in control of individual action. The rules, regulations, or bylaws I name the ‘rules of action’ or ‘working rules of collective action’” (cited in Seckler, 1975: 127). Such conception of institutions must have served as a source of inspiration for the leading figures of NIE like Oliver E. Williamson and Douglass C. North:

The institutions of principal interest to the NIE are the institutional environment (or rules of the game – the polity, judiciary, laws of contract and property [Douglass North, 1991]) and the institutions of governance (or play of the game – the use of markets, hybrids, firms, bureaus) (Williamson, 1998: 75).

Then, if we turn to Commons’s *The Legal Foundations of Capitalism*, the following short excerpt, which is a summary of his life-long efforts, is quite noteworthy as far as his (and NIE’s) attitude towards capitalism is concerned: “I was trying to save capitalism by making it good. I wanted also to make trade unions as good as the best I knew” (cited in Mitchell, 1949: 278). Putting aside Commons’s good intentions, one can here detect one of the most obvious divergences between Commons and Veblen. Veblen not only desired the defeat of the institutions of capitalism due to their wasteful and exploitative nature, but also deemed ‘the state’ and labor unions as powerful instruments of vested interests. Commons, however, is reminiscent of a typical ‘liberal’ with ‘social

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<sup>48</sup> As far as our thesis is concerned, we should state clearly that we favor Veblen-based OIE and criticize Commons-oriented NIE. Hence, we do not concur with the above-discussed aspects of Commons’s work. However, apart from the link between Commons and NIE, we will argue in section 5.4 that the ‘open-system perspective’ (as one of the most important tenets of a *truly* Institutional Economics) is also present in Commons’s work. Hence, we believe that the legacy of Commons can still be interpreted in a different way so as to oppose to the liberalism-oriented individualism of NIE. Such an interpretation is, of course, beyond the scope of this study.

democratic' inclinations. He strived for gradually tempering capitalist institutions and trusted in state and labor unions as positive organizations of conflict resolution (Özveren, 1998: 481).

All these contradistinctions between Veblen and Commons have had important consequences on the future developments in Institutional Economics. Those institutionalists who favored Veblen's way have usually shown up as anti-liberals, whereas Commons-inspired ones tended to examine institutions by means of neoclassical tools so as to (implicitly or explicitly) back (neo-) liberal and market-friendly solutions. It is interesting to note that Ronald Coase and Douglass C. North were given the Nobel Prize in Economic Sciences in 1991 and 1993, respectively, at a time when the original Washington Consensus of the 1980s was being augmented by the development and inclusion of the neoliberal concept and model of 'governance'. If the Nobel Prize in economics is generally given to those academics whose life-long contributions are conducive to the maintenance of the existing world-system, then we must confess that both Coase and North deserved the Prize as the two leading figures of NIE.

Let us conclude by way of interpretation of what we have discussed so far. The idea that good economic performance relies chiefly on: i) rational minimization of transaction costs, and ii) secular maintenance of property rights has invariably prevailed as the common denominator of the sub-schools of NIE. The first task of transaction cost minimization aims at eliminating non-market exchanges since they represent the costliest way of transactions in terms of the allocation and provision resources and goods. In this respect, the main targets of attack are the 'economic policy-making capability' of the state and the 'public services' that have been conventionally provided by the state. In both of these domains, the involvement of the state as an economic actor is considered to be an obstacle for the efficient operation of the market and the profit-maximizing ability of firms. In the economic domain of social life; state mechanisms, market processes and firms' governance structures can be regarded as alternative modes

of organizations for ‘allocation of *scarce* resources *vis-à-vis* the objective of satisfying *unlimited* human wants and needs’. This is how the ‘economic problem’ is conventionally set forward. In the context of NIE, the solution to this problem can be solved in the least costly way by firm-level governance structures, which emerge and survive due to their capacity of ‘transaction cost economizing’. The market processes represent the second-best solution, whereas the involvement of the state mechanisms in the economy leads to the most costly way to transact. Therefore, it is necessary to minimize the economic functions of the state since NIE identifies lower transaction costs as the most important stimulant of economic activity, growth and development. As such, by having recourse to NIE, one can easily legitimate the idea that the state’s involvement in economic affairs implies loss of economic efficiency. This is so not only because production and exchange are carried out more efficiently in the private sector than the public sector, but also because the state’s economic involvements augment economy-wide transaction costs. Such costs are undesirable ‘frictions’ against the smooth operation of the market processes. And, by having recourse to NIE again, one can propose that the state should behave as a ‘flexible government’ and like an ‘entrepreneur’. So, the state should: i) relegate its capacity of ‘economic policy-making’ to non-state and politically independent organizations, and ii) minimize the public services that it has conventionally provided to its citizens so that the high transaction costs involved can be decreased by transferring such services to the private sphere of the economy that operates on market logic.

The second task of the maintenance of property rights aims at firmly securing the basis of the existing socio-economic system in the context of NIE-based analysis. If the system of (private) property rights were not safely maintained, the first task of transaction cost minimization would completely lose its significance. At times when the state loses its monopoly power to define and protect property rights (so as to give way to social violence and mafia-like organizations), transaction costs increases so drastically that it becomes almost impossible to carry out truly economic exchanges. So, even though the state is

to give up its socio-economic functions, it has still a very important socio-political task as the intrinsic public authority: Establishing a secure economic environment by effectively maintaining ‘rule of law’. In other words, the state should serve merely as the guarantor of the self-regulating market system, within which firms can easily find out the efficient ways of minimizing the remaining transaction costs. Economic growth and development can be sustained only if the state accomplishes its socio-political task effectively.

At this point, we should draw attention to a contradiction that is generally found in liberalism-oriented schools of thought such as NIE. The idea that the state should only secure the smooth functioning of the economic system by giving up its socio-economic functions implies too optimistic a viewpoint regarding the spontaneous ability of a self-regulating market system to automatically fulfill those socio-economic tasks. ‘Social violence’ and ‘mafia-like organizations’ arise in the case of smoothly functioning market economies as well. Indeed, historically, it is difficult to find out a positive correlation between the propagation of free markets and decline of social violence and lawless actions. Market-friendly liberal approaches always miss the point that the true antidote to violence and lawlessness is the sustainability of socio-economic well-being at social level. In the fourth and fifth chapters, which constitute the core of our thesis, we will argue in detail that a self-regulating market system is unavoidably and simultaneously self-defeating due to its unbearable social consequences. That is to say, the crucial point is *not* as to whether the liberal schools such as NIE are right or wrong in accentuating the need for a ‘governance’ order characterized by a state, which is absent in the economic domain for the minimization of transaction costs, and which is present in the political domain for merely securing ‘rule of law’. However, the extension of market logic to the socio-cultural tissue of society is itself a process that spontaneously undermines rule of law. That is to say, the state may be given merely the task of maintaining *socio-political security* so that the market economy operates freely and efficiently to yield economic growth and development. Yet, from a historical perspective, the ‘efficient’ functioning of

the free markets, in the long-run, re-generates the conditions under which the state has to re-assume its socio-economic functions. Otherwise, the inevitable consequence becomes ‘social violence’ and ‘lawlessness’ due to the resulting *socio-economic insecurity*. This argument on our part will become clearer at the end of section 5.3, where we examine Karl Polanyi’s insights as an antidote to liberal economic thought.

This is how we interpret the implications of NIE and its connection to the neoliberal concept and model of governance. After this analysis of the economic background of governance, we should now briefly examine two consequent paradigms that have been developed in the context of the public administration discipline in the 1980s and 1990s, respectively: ‘New Public Management’ and ‘Public Governance’. If governance mainly attempts to alter the traditional mechanisms and working rules of the state so that the market reigns supreme, then we should complete this economic background by an analysis of how the conventional structures of the state are being dismantled in accordance with the model of governance.

### **3.3. From ‘New Public Management’ to ‘Public Governance’<sup>49</sup>**

The period roughly between 1950 and late 1960s is conventionally referred to as the (Keynesian) Golden Age. By means of the state-led management of the world economies, considerable socio-economic improvements have been materialized all around the capitalist world-economy in this period. The advanced capitalist countries performed quite well in terms of increasing the general welfare of their citizens. Such increases in welfare levels were the result of socio-economic policies directly implemented by the so-called ‘welfare states’. On the less-developed part of the capitalist world-economy, the socio-

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<sup>49</sup> This section relies on the proficient studies by three Turkish academicians: Güler (2003), Güzelsarı (2004) and Bayramoğlu (2005), who analyze the concept and model of ‘governance’ from a political scientific and/or public administrative point of view. These three studies are strongly recommendable for Turkish-speaking scholars who are interested in governance issues.

economic performance of the countries was also satisfactory. In the wake of the Second World War, a Third World had emerged as we discussed in the beginning of the previous chapter. The Third World countries were identified by their dramatically backward socio-economic conditions in the early 1950s. However, in general, those countries were also quite successful in terms of raising their standards of living over time throughout the Golden Age. Such increases in the living standards were basically due to the socio-economic policies directly implemented by the so-called 'developmental states'. As such, the Golden Age of the capitalist world-economy after the Second World War was characterized by the pre-dominance of state-led policies, which implied direct restrictions on the self-operation of the market. However, the Golden Age could not last so long.

We have already discussed the oil crises of 1970s that resulted in stagflation in the developed countries and paved the way for the severe debt crisis to be experienced by the less-developed countries in the forthcoming years. Towards the end of the 1970s, consequential changes started to take place in the practice of economic policy-making at all levels of the capitalist world-economy. 1970s were painful years for most of the world economies. The Golden Age had suddenly turned into a period of socio-economic crises. Under these circumstances, it was not surprising that the market-friendly liberal ideas started to gain momentum as the theoretical and practical opponent of state-led socio-economic policies. The revival of the liberal creed reached its climax during the 1980s. The heavily indebted less-developed countries had no choice but obey the dictations of the commanding heights of the world-economy to be able to get financial aid. Along the Golden Age, the World Bank and the IMF had usually behaved in accordance with the state-led spirit of the times. However, by the 1980s, circumstances had changed drastically, and there emerged an urgent need for banning the use of 'wasteful', 'inefficient' and 'corruptive' state apparatus for welfare enhancement and developmental purposes. The world economies as a whole should have tightened the belts in order to avoid inflationary pressures and/or repay debts on time. The eventual collapse of the Golden Age policies

were too easily and directly attributed to the defective nature of the state apparatus in regulating economic affairs. The standard liberal recipe was always there to be dictated and implemented: Let ‘the market’ do, put ‘the state’ aside. The so-called Washington Consensus emerged out of these world-economic conditions by marking the rise of neoliberal globalization as the successor of international Keynesianism.

Neoliberalism involved lots of items in its recipe concerning the minimization of the involvement of the state in the economy: Fiscal austerity, deregulation, privatization, promotion of free markets at national and international levels, liberalization of capital flows world-wide, etc. Each of these items had something to do with the minimization of the economic role of the state as we discussed in section 3.3. But the minimal state was not a thing to be easily obtained overnight. A systematic procedure was needed to push away the state from the economic domain. As is well-known, structural adjustment and stabilization policies as designed and dictated by the World Bank and the IMF constituted the tenets of this systematic procedure. However, unless we examine the sources from which the neoliberal ‘reform’ agenda fed itself in practice, we cannot understand why the original Washington Consensus and the Post-Washington Consensus together form a counter-revolutionary and determined attack on welfare and developmental states. It is for this reason that we will analyze why the ideas of ‘New Public Management’ and ‘Public Governance’ have been put into practice for the last twenty-five years. These two new schemes of public ‘administration’ have not only aimed at changing the traditional structures of the state (in full accordance with ‘governance’), but also served as seemingly persuasive tools for legitimating the neoliberal ‘reforms’ from the 1980s to the twenty-first century onwards. Hence, for a better understanding of this “golden age” (Hughes, 1994: 48) of neoliberal ‘reforms’, we now turn to New Public Management.

While discussing the link between New Institutional Economics (NIE) – as a case for economic liberalism – and the contemporary model of neoliberal

governance, we have argued that liberal mentality confines the task of the state to the arrangement and maintenance of the legal framework of economic activities. It is in this way that the economy can be freely coordinated by the market to yield economic success. In such a liberal framework, there is no need to implement socio-economic policy: The market will operate on its own for the self-regulation of the economy, whereas the state will only ‘govern’ and not make any economic policy. This liberal mentality had its reflections on political science in the early 1980s, when the concept of ‘public management’ started to replace the traditional notion of ‘public administration’ (Perry & Kreamer, 1983). The *newness* of ‘public management’ with respect to the old-fashioned ‘public administration’ was directly accentuated by the use of the phrase ‘New Public Management’ (NPM) as of the late 1980s (Hood, 1991). This NPM-approach formed the new basis of ‘public administration’ especially in Anglo-Saxon countries during the 1980s. Its premise was that public sector reforms could be conducted by means of similar tools in economically and politically different countries (Bayramoğlu, 2005: 133). It envisaged the operation of ‘public administration’ according to ‘management logic’ that relies on profit-loss accounting along with productivity and performance indicators (Kersbergen & Waarden, 2004: 148).

It is interesting that there are significant parallels between the essence of the mentalities of NIE and NPM: Both of them rely on the economic efficiency of the private sector that comprises private enterprises operating within the market. In contrast, the public sector is identified with its expansive spending and proneness to misuse and waste of resources. Therefore, in accordance with the implications of NIE, NPM involves the transfer of the *economic* mode of organization of private enterprises to the public sector. Let us see why and how. For this, we submit an outline of five principal items in the agenda of NPM (Güzelşarı, 2004: 4-5)<sup>50</sup>:

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<sup>50</sup> Our version of these five items is a free translation of Güzelşarı’s Turkish outline. Following sources are cited in Güzelşarı in compiling her outline: Hood (1991), Pollitt (1990), Walsh (1995), Hughes (1994), Üstüner (2000) and Ömürören (1998).

- i) The responsibility and scope of authority of the administrators ('managers') in public institutions are clearly defined, and they are given the 'freedom to manage' so as to behave in a *cost-conscious* manner.
- ii) System of public administration ('management') is arranged through horizontal organizational structures rather than hierarchical ones. Bureaucratic structures (of the traditional organization of the state) are to be transformed so as to transact with each other as semi-autonomous units. Each of these units is obliged to pay for the use of services or resources provided by another unit.
- iii) The performance of public institutions is assessed according to the goods and services they produce and the productivity levels they achieve. The criterion of efficient use of resources replaces the traditional practices carried out by formal procedures and regulations [It is most notably at this point where 'public administration' is transformed into 'public management' (in line with the 'working rules' of private enterprises)].
- iv) Public services are to be supplied 'flexibly'. That is to say, the notion of 'citizen' is re-defined as the 'individual consumer' or the 'customer' to public services. Moreover, public enterprises are to be dismantled by way of privatization so that they can be run as flexible, specialized and autonomous units.
- v) Competition is to be enhanced in the provision of public services in order to maintain fiscal discipline in the use of resources.

In this respect, we should note that the above-listed items belong to the NPM-agenda of the 1980s. That is to say, this agenda was set forth before the rise of 'governance' as a concept and model in the 1990s. Hence, NPM-agenda was

concomitant to the neoliberal recipes of the original Washington Consensus. However, it can be easily seen that this agenda must have paved the way for the rise of ‘governance’ in the Post-Washington Consensus period. Whereas the structural adjustment and stabilization programs of the original Washington Consensus were intended mainly for minimizing the economic role of the state, NPM seems to have paved the way for targeting the *institutional structure* of the state. Hence, the development of NPM-approach must have played an important role in the transition from the original Washington Consensus of the 1980s to the Post-Washington Consensus of the 1990s (and onwards). One can describe the difference between the 1980s and the 1990s as follows: In the former period, the major objective was to restrict the socio-economic functions of the state (via Washington Consensus) while preparing for institutional changes (via NPM) to be implemented in the next period.

Indeed, the idea that the state is to be market-oriented and managed by the ‘entrepreneurial spirit’ (Walsh, 1995: 3) was widely discussed in the post-1990 period. The term “entrepreneurial government” was coined and developed by Osborne and Gaebler (1992: 20, 1993). According to this definition, “entrepreneurial government” puts the emphasis on ‘competition’ among public institutions that provide (public) services, and assesses them with respect to their performance. Such a government is to re-define and consider the people, to whom it provides services, as ‘customers’; while focusing upon earning revenues rather than spending. In the context of an entrepreneurial state, the authority to make decisions is to be decentralized so as to effectuate reliance on market processes (rather than on bureaucratic mechanisms). The primary task of such a state is not the direct provision of public services, but to facilitate the provision of public services carried out by the public, private and voluntary sectors (Güler, 2003: 100, fn. 10). The terms like ‘entrepreneurial government’ and ‘optimal state’ accompanied the rise of NPM-approach at a time when the remnants of the Keynesian Golden Age (*i.e.*, welfare and developmental states) were under attack. The essence of this attack on the conventional policy-making capacity of the state can be summarized in terms

of three neoliberal principles: Public administration is to: i) be organized in accordance with market logic, ii) arrange its working rules in line with market dynamics, and iii) share its tasks and decision-making authority with market participants (Hood, 1994).

Consequently, we should also draw attention to the role of New Institutional Economics (NIE) in NPM's paving the way for 'governance'. NIE's interaction with NPM corresponds to the late 1980s, when it helped NPM incorporate 'competition' into the public sphere as an encouraging factor (Rhodes, 1996: 655). The model of 'entrepreneurial government' envisages the transfer of public assets to the private sector via privatizations and the adoption of the principle of competition within public management, and thus it is reasonable to consider the model of 'entrepreneurial government' as a synthesis of NPM and NIE (Bayramoğlu, 2005: 133). The idea of 'entrepreneurial government' represents the transition from NMP (of the 1980s) to the so-called 'public governance' (of the 1990s) under the formative influence of NIE.

In the age of 'governance', the items of NPM, which were developed in the 1980s, were utilized as an integral part of neoliberal policies. It is clear that the NPM-agenda was submitted as a set of techniques to enhance the productivity and efficiency of the state. However, it was, in fact, utilized as a tool to support and maintain the operation of the market (Güzelsarı, 2004: 5) in accordance with the long-term strategies of the private sector in the face of the capitalist globalization process (Klicksberg, 1994: 188). All in all, NPM-agenda and the governance model can be together considered as an attempt to convert the traditional structures of the state into a market-oriented institution that operates like firms. Such a project has been put into practice in many developed and less-developed countries since the early 1980s. One should not miss the distinctive features of the NPM-originated neoliberal governance model as compared to the conventional market-friendly 'orthodox' solutions. NPM represents a transformation of relations between: i) state-market, ii) state-

bureaucracy, iii) state-citizen, and iv) bureaucracy-citizen (Güzelşarı, 2004: 5). As such, NPM was quite instrumental in paving the way for: i) the ‘marketization’ of the state from within, and ii) the re-definition of the role of the state as a market actor, which is to help the market and the private sector to operate smoothly (Güzelşarı, 2004: 6).

It should be clear now that NPM was an attempt to replace the traditional notion of ‘administration’ with ‘management’ in public institutions. This shift of focus from ‘formalities’ to ‘efficient use of resources’ in the conventional structures of the state has been regarded as a “global revolution” in terms of its emphasis on freedom to manage and market-oriented management (Terry, 1998: 195). On the one hand, the rationale behind freedom to manage is to let the administrators (‘managers’) in public institutions behave freely in such a way that: i) the performance of public employees can be enhanced, and ii) the administrators can do their job independently from the wants and needs of the politicians. On the other hand, the rationale behind market-oriented management is to adopt: i) ‘competition’ as a means to reform the public sector from within so as to constitute ‘internal markets’ within public institutions, and ii) the idea that the private sector is superior (to the traditional public sector) (Güzelşarı, 2004: 6-7). The idea of the superiority of the private sector finds its expression in the neo-Taylorist suggestions that the public sector should adapt the management techniques of the private sector, which have proved to be so successful so far. Thus, it should not be surprising that the post-1980 transition from ‘public administration’ to ‘public management’ was treated as a ‘revolution’ (Gray and Jenkins, 1995). In line with the rise of the so-called Post-Fordist modes of ‘flexible production’, the role of the state was re-defined as providing support for this type of production systems. To be sure, the chief purpose of this new definition of the role of the state is to adapt public institutions to the conditions of global competition (Güzelşarı, 2004: 7).

All in all, NPM served as a conceptual framework for the further development of the concept and model of ‘governance’. NPM paved the way for the re-

structuring of ‘the state’, which is one of the three main components of ‘governance’ along with the market and society. It did so by setting forth the basis of the re-organization of the state in terms of the transformation of state’s internal structure in accordance with market rules (Güler, 2003: 101). The practical implementation of such a structural transformation generally relied on the following idea: Rather than being an absolute authority possessing the capacities of government and regulation, the contemporary state has taken the form of a collection of webs constituted by public and social actors (Rhodes, 1996: 666). As such, the task of the contemporary state is to reinforce these webs and to find out new forms for coordinating them.

In practice, the rise of neoliberalism in the early 1980s was associated with Reaganism in the US and Thatcherism in England. Then, the items in the NPM-agenda were first implemented in such countries as England, New Zealand and Australia – the countries that were affected relatively more prominently by the crises of 1970s. However, these reform programs as backed by the NPM-approach were then extended to the global level all along the 1980s and 1990s (Güzelşarı, 2004: 4; Kreaudren & Mierlo, 1998). Emanating from the Anglo-Saxon countries to a large portion of rest of the world, proponents of neoliberal reforms in the name of NPM (in 1980s) and ‘governance’ (in 1990s) have directly attacked on the traditional theories and practices of public administration (Gray & Jenkins, 1995: 80).

At this point, we will end our discussion of the link between NPM and ‘governance’ so as to analyze World Bank’s conception of ‘good governance’ in the next section. As we briefly discussed in the beginning of this chapter, the World Bank was the first to use and develop the term ‘governance’ among other transnational establishments such as the United Nations, OECD, WTO, etc. The Bank’s conception of the term is especially important for us. Along with the IMF and the WTO, the Bank started to re-shape the new global economic order by having regular recourse to ‘governance’ following the collapse of the USSR from the 1990s to our times. In other words, the

‘governance model’ has been implemented at global level by what we dub as the ‘commanding heights’ of the contemporary world-economy.

Meaning basically ‘good public institutions’, ‘governance’ has been dictated to the less-developed countries as a magical formula for sustainable economic growth and development. Along with the neoliberal recipe, many less-developed countries have subscribed to ‘governance reforms’ since the 1990s. For instance, Turkey has always been among those less-developed countries as one of the most consistent devotees of neoliberalism. Therefore, before passing to World Bank’s conception of ‘good governance’, it seems a good idea to take a look at a group of Turkish academicians’ insights on governance issues. For this purpose, we add below the governance-related part of an interview with economists Korkut Boratav, Ahmet Haşim Köse, Oktar Türel, and Erinç Yeldan. We end this section with that part of the interview since we believe that the true implications of ‘good governance’, which we will discuss in the next section, can be better understood in the light of the governance-related insights of these *independent* Turkish economists:<sup>51</sup>

“*Question:* What were the main transformations caused by the [globalization] process in countries like ours?

*Ahmet H. Köse:* The spread of the so-called neoliberal policies was witnessed at world-scale in the 1980s. These policies, which were backed and maintained by the World Bank, the IMF and the WTO, were strongly restricting the national states in interfering with the economy. Such policies were paving the way for the re-formation of a ‘liberal’ economy at world-scale as well. This, in turn, necessitated the liquidation of demand- and income-distribution-oriented Keynesian policies as well as the institutions implementing such policies. Indeed, in all countries implementing these policies, social security payments and transfer expenditures have been gradually cut down, labor markets have

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<sup>51</sup> The interviewer was a Turkish daily newspaper: *Cumhuriyet* (August 14-18, 2003). The interview was also published in a periodical journal (Boratav *et al.*, 2002), from which we freely translated the relevant part.

been made flexible by the restrictions on labor union rights, and public administration has been considerably liquidated by way of privatizations. On the other hand, some services previously provided to the citizens by public institutions have been gradually transformed into services available for only those people who could pay the price. This is the rationale behind the privatization of many public services.

*Question:* So, were the neoliberal policies aiming at liquidating the ‘social state’ in the world as a whole?

*Ahmet H. Köse:* Of course. Neoliberalism was a global policy, and it caused a substantial erosion of the benefits of the social state – albeit in different forms – in both the core and underdeveloped countries. On top of that, irrespectively of the presence of central right or central left governments in power, this consequence was the same in every country where these policies were implemented. It would not be wrong to say that, all along this process, neoliberal globalizationist attitude has been the absolute mentality in power regardless of its political stance. . . .

*Question:* All right, then, what were the policies developed as alternatives to the social state? Could you evaluate the role of the IMF and the World Bank in the implementation of these policies?

*Ahmet H. Köse:* We are living in a period in which everything is becoming more and more marketized [commodified]; economic criteria like efficiency and profitability are reigning supreme over all other values that constitute ‘the social’. The market as the only post of ratification for all the deserved prizes and punishments, and ‘economic logic’ as the only criterion of social choice and rationality are gaining ground in all spheres of life. This, in turn, entails governing the nation-states and societies in accordance with these new structures. And this, in turn, brings the concept of ‘governance’ into our agenda. This concept is also backed by such organizations as the IMF and the World

Bank. In its plain meaning, governance is the detachment of ‘government of society’ from politics; it is the conversion of ‘government’ into a politically independent agency or the relegation of government to politically independent institutions or regulatory boards. These institutions and boards are generally *not* subject to the constitutional control mechanisms of nation-states so as to be subject to neoliberal global capitalism. From this point of view, the concept of governance implies the political and legal legitimization of the economic and social circumstances, which have been constructed deliberately by neoliberalism for the last thirty years.

*Question:* Could you proceed further with what you mean by the concept of governance?

*Ahmet H. Köse:* . . . For me, governance is the reduction of society’s capacity of decision-making to the private domain by taking it out from the public domain. In this context, social demands are detached from the organizational struggle of different groups and classes in the public domain, and relegated to the initiatives of power circles that are defined as civil society organizations. However, these ‘civil society organizations’ represent individual interests rather than the interests of social groups. They are based on the claim that efficient government of society will be enhanced by means of the organization of individual interests and the removal of the legal barriers to the realization of these interests. According to this view, civil society should share the executive function of the public bodies, and even the legislation function of the parliament. The following impression is given: The transition from the whole set of rules of the democratic state to the level of contracts and exchanges among individuals will create a larger medium of freedom and initiative within society. According to this approach, ‘the political’ leads to inefficiency in governing society; so, it should be narrowed and replaced by the establishments of civil society. The group of new actors in civil society generally comprises the managers of domestic companies, who cooperate with

transnational organizations and corporations; bureaucrats who have a ‘vision of the future’; and the people in the media, who frequently enter our daily lives.

*Erinç Yeldan:* The neoliberal view is problematic in terms of its attempt to construct a new type of state that will adapt to globalization. Its most important dilemma is its consideration of all corruptive and rent-seeking activities as pertaining merely to the public sector; and its claim that the private sector is made up of rational individual technicians, who are ‘clean’ and who fulfill the requirements of economic logic. The so-called private sector is seen as if it represents an ideal institution; which is super-natural; which assembles in its essence all the capabilities of economic reason; which is able to reach economic optimum by observing market signals in the context of competition. For this ideal institution to have a say in society; ‘the economic’ should be refined from ‘the political’, and principles like good governance should be put into practice. Yet, the recent history of peripheral countries like ours, which were late-comers in joining capitalism, demonstrates that segments of private capital are, in fact, embedded within the state. Private capital accumulation had been realized directly through the rent mechanisms provided by the state; and the state had played an important role in the development of private capital by means of various non-economic mechanisms of rent transfer. In this sense, a number of activities, which are nowadays called ‘corruption’, were in fact put into practice, *not* in spite of the civil private sector, but to reinforce and enhance this sector itself. Put differently, I mean to say that the mediatic propaganda, which is being carried out in the name of rational economic behavior refined from ‘the political’, describes a completely fictitious world and does not reflect the facts of capitalist society.

*Korkut Boratav:* ‘Governance’ is a social construction, which attempts to replace the representative democracy based on political parties that are communicating and interacting in various ways with social groups organized around common interests. As the consequence of historical development, the European type of representative democracy yielded the welfare state, and its

underdeveloped type resulted in ‘populism’. Today, the target is the liquidation of these models. In both models, income distribution process is partly determined by politics, and partly by the market. Political participation and interaction protect the layers of people against the market. The mentality of ‘governance’, however, aims at carrying ‘income distribution’ and ‘mechanisms of resource allocation’ outside of politics. ‘The political’ cannot be liquidated abruptly by handing over everything to the market. A transition process is needed. In this regard, ‘15 laws in 15 days’ as marketed by Derviş<sup>52</sup>, and the numerous decrees that followed, are all parts of the attempt to carry the ‘governance’ model step by step into Turkey. Consequently, many domains; like monetary and foreign exchange policies, banking, telecommunication, energy, unions of agricultural sales, have been relegated to the control of politically independent boards and the specialists administering these boards. It can well be argued that the Undersecretariat of Treasury also constitutes *de facto* an autonomous domain of this type. Even the legislation procedure has been gradually made subject to: i) these boards, and ii) to the allegedly civil society organizations (that closely cooperate with these boards) and to ‘a herd of *de facto* foundations’. The influence of the parliament and the government; namely, the influence of the traditional institutions of representative democracy on these boards has been entirely eliminated. All right, then, are these boards and the allegedly civil society organizations really autonomous? No; all activities of these boards and organizations are under the control of: i) the IMF and the World Bank, and sometimes the Ministry of Treasury of the US, and ii) domestic big capital, and especially the media and layers of finance capital. From all possible points of view, the ‘governance model’, which is attempted to be established in Turkey by these methods, represents an anti-democratic transformation” (Boratav *et al.*, 2002: 37-41).

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<sup>52</sup> As a consequence of a severe financial crisis in Turkey in 2001, Kemal Derviş left his post at the World Bank and came to Turkey as the minister of economy in order to save the Turkish economy. He was still minister, when this interview was given. Later on, Derviş was appointed the chairman of the United Nations Development Programme (UNDP).

### 3.4. Can Capitalism be Made Good by ‘Good Governance’?

In our discussion of the link between New Institutional Economics and neoliberal ‘governance’ in section 4.2, we cited a sentence, which summarized John R. Commons’s life-long efforts: “I was trying to save capitalism by making it good”<sup>53</sup> (cited in Mitchell, 1949: 278). If Commons was trying to save capitalism by making it good in the first half of the previous century; in our opinion, the World Bank (along with other international and transnational organizations) is nowadays trying to do the same. Let us clarify this briefly and simply.

First of all, if something is to be saved, then that thing must be necessarily at stake. That is, there is no need to save a thing, if it is not at stake. So, if Commons did not see that capitalism in general was at stake, he would not devote his life to a search for saving capitalism by making it good. Secondly, if something is to be saved by making it ‘good’, then that thing must be at stake *because* it is ‘bad’. That is, if that thing were not ‘bad’, it would not be at stake. At this point, let us recall that, rather than any form of governance that is ‘ordinary’ or ‘neutral’, the World Bank insists specifically on ‘good governance’ at all levels of the existing world-system. Consequently, we can argue that World Bank’s conception of ‘governance’ implicitly indicates a bold confession: As a matter of fact, capitalism is bad! We agree with the Bank in this respect.

Nonetheless, we disagree with the Bank in answering the following question: Can capitalism be made good by ‘good governance’? “Yes”, the Bank answers. Indeed, all the ‘good governance’ efforts as dictated by the Bank to the underdeveloped countries aims at the ‘good’ operation of the world markets at global level. From Bank’s point of view, if the ‘bad’ conventional structures of Third World nation-states are eliminated, then capitalism will become ‘good’

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<sup>53</sup> Ironically, John Maynard Keynes (1883-1946), as a contemporary of Commons (1862-1945), had the honor of formulating practical solutions that were used to save capitalism in the post-war period.

thanks to the spread of the spontaneous efficiency of the market to the entire globe. In contradistinction, the premise of our thesis is that capitalism is *unavoidably* ‘bad’. That is to say, capitalism can *by no means* be made good: It is bad by definition and construction. As we argued in the previous chapter on ‘development issues’, capitalism as a historical world-system *entails* ‘development *plus* underdevelopment’. The co-existence of ‘development’ and ‘underdevelopment’ is a survival condition for capitalism. Hence, ‘genuine development’ encompassing the world as a whole at global level is not viable as long as capitalism survives. From this point of view, we disagree with not only ‘good governance’, but also some anti-good-governance proposals for development such as those put forward by Chang and Grabel (2004). The analogy between World Bank’s ‘good governance’ and the state-led developmental agenda of Chang and Grabel is that they both say “Yes” to the following question: Can capitalism be made good? It can be made good by means of: i) ‘good governance’ in the case of market-friendly orthodoxy as best represented by the World Bank, and ii) ‘good economic policy’ in the case of state-friendly heterodoxy as best represented by Chang and Grabel. Both the orthodoxy and heterodoxy seem to fail to acknowledge that ‘underdevelopment’ will always exist so long as capitalism survives as a historical world-system. Neither ‘good governance’ nor ‘good economic policy’ can be panacea for eliminating ‘underdevelopment’ from the capitalist world-system. Let us now turn to the discussion of ‘good governance’ so as to see its global dimension. After that, we will end this chapter by returning to the points made above.

*At first sight*, the governance model aimed at eliminating the ‘antagonism’ between the state and society. As a new world order was emerging along with the ‘inevitable’ process of globalization, accompanied by the collapse of the USSR, society should have a say in determining its own future. Hence, the highest priority has become the establishment and maintenance of a new and suitable ‘mode of government’ that would comply with the required harmony between nation-states and ‘nation-societies’ in a fast globalizing world. The

identity between ‘government’ and the functions of ‘the state’ has turned out to be a subject of debate among economists, political scientists, and scholars of international relations.<sup>54</sup> We have already referred to some of the views of the economists and political scientists (along with the scholars of public administration) in the previous sections of this chapter. Besides, in juxtaposition to the Post-Washington Consensus, a literature on ‘governance at international level’ (or what may be called ‘global governance’) has also emerged from the 1990s onwards. Now, we will concisely focus upon ‘international governance’ in order to reveal the ‘global’ aspects of ‘good governance’.

To cite some eminent examples on ‘international governance’, it is a good idea to start with Rosenau and Czempiel (1992). For these authors, it is possible to distinguish between ‘government’ and ‘governance’ in such a way that the former is a sub-set of the latter, which incorporates not only ‘formal’ but also ‘informal’ institutions.<sup>55</sup> ‘Government’ implies ‘the state as we know it’<sup>56</sup>, whereas ‘governance’ harbors non-state actors and organizations in addition to the state. With this encompassing definition, ‘governance’ can well be identified with what may be called ‘full democracy’ since it entails the

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<sup>54</sup> We submit below an eclectic list of governance-related studies that may be helpful for the interested reader. Among these, we utilized only the most relevant ones for the purposes of our thesis. Ahrens, 2002; Arrighi & Silver, 1999; Aygül, 1998; Bayramoğlu, 2002, 2005; Clapham, 2002; Coleman, 1997; Degnbol-Martinussen, 2002; Fine, 2004; Frank, 2004; Galtung, 2004; Griffin, 2003; Güler, 2003; Güzelsarı, 2003; Harrison, 2004; Held, 1995; Helmsing, 2001; Hirschmann, 1999; Hirst & Thompson, 1996, 1997; Hout, 2002; Hveem, 2002; Jessop, 1998, 2002; Keefer, 2004; Kiely, 1998; Klicksberg, 1993, 1994; Kooiman, 1993; Leftwich, 1993; Nuesiri, 2004; Osborne & Gaebler, 1993; Öniş & Şenses, 2005; Özdek, 1999; Özveren, 2003; Peker, 1996; Peters, 1996; Petras & Veltmeyer, 2002; Pierre, 2000; Pierre & Peters, 2000; Pieterse, 2004; Prakash & Hart, 1999; Rhodes, 1996, 1997; Rivera-Batiz, 2002; Robertson, 2004; Rodrik, 2000, 2002; Rosenau & Czempiel, 1992; Scholte, 2004; Standing, 2004; Storm & Rao, 2004; Tabb, 2004; Turner, 1998; Wade, 1990; Williams & Young, 1994; Zabci, 2002.

<sup>55</sup> Note the similarity between the conceptions of ‘governance’ by Rosenau & Czempiel (1992) and New Institutional Economics.

<sup>56</sup> It should be clear by now that we use the phrase ‘the state as we know it’ as ‘the state before neoliberal governance’. In the previous sections of this chapter, we tried to demonstrate that, by backing ‘governance’, ‘New Institutional Economics’ and ‘New Public Management’ paved the way for fundamental structural changes in the traditional entity of the state. Conventional mechanisms and institutions of the state are being converted into working rules pertaining to private firms, which, by definition and construction, operate in accordance with market logic. ‘The state as we know it’ is completely different from ‘the state of governance’ in that the former is not only a political but also a socio-economic institution, whereas the latter is a *purely ‘economistic’ institution refined from its political and social *raison d’être**.

participation and consent of the large segments of society, either at nation-state level or in the inter-state system. Unlike ‘government’, ‘governance’ is inconceivable in the face of ‘opposition’ (Çitak, 2000: 49-50). As such, ‘governance’ can be said to rely on a kind of ‘socio-political equilibrium’, without which ‘government’ can exist and survive and ‘governance’ cannot. Hence, we are inclined to regard ‘governance’ as a ‘system of compromise’ among the nation-states at international level.

In this connection, Held’s (1995) contention is that the need for ‘governance’ at global level has arisen from the inherently problematic nature of ‘the nation-state’, which defies ‘full democracy’ due to its proneness to accumulate power *vis-à-vis* its equals. In this account, the process of globalization has the effect of intensifying the problematic nature of the nation-state concerning its contrstance against full democracy or cosmopolitan governance. Hence, it is not globalization *per se*, but the defective system of nation-states that has paved the way for the emergence of ‘cosmopolitan governance’ as a possible means of achieving democracy at global level. As Çitak (2000) investigates in detail, Held’s democracy-centered approach is in contrast with the well-known economy-oriented approach due to Hirst and Thompson (1996), who see no problematic posture within the entity of the nation-state.<sup>57</sup>

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<sup>57</sup> As far as the ‘governance’ debate is carried out with reference to the transformation of the olden system of ‘nation-states’, European Union (EU) should also be mentioned as a mature and comprehensive governance structure with its supra-national regulatory mechanisms. Indeed, “[t]he European Union has long moved well beyond the original idea of a common market and now stands for a supra-national formation that places governance above the realm of nation-states and that transcends historical enmities inherited from the age of nationalism or even earlier. . . . For example the ossified hostility among the French and the Germans left its mark on both world wars. These two countries are now not only prime-movers of the European Union, but also purport to be designers of a post-nation state governance order” (Özveren, 2006: 19). In this regard, a number of EU-originated reports have also contributed significantly to the theoretical and practical development of the concept and model of governance (For instance, see Commission of the European Communities, 2001 & Group 5, 2001). The political project that marked the recent expansion of the EU was argued to involve neoliberal priorities such as: i) the free circulation of goods, money and skilled-labor, ii) the extension of governance mechanisms to all levels of regulation by means of encouraging decentralization, and iii) the formation of the human and physical infrastructure required to implement governance reforms in both of these areas. “European Governance” has been designed to search for the ways through which EU’s ‘global responsibilities’ are fulfilled in accordance with the principles of ‘good governance’ (Bayramoğlu, 2005: 76-77).

The premise of Hirst and Thompson is that the need for ‘governance’ arises directly from the globalization process. Globalization distorts the system of nation-states, which is otherwise free of significant problems. Like Rosenau and Czempiel (1992), Hirst and Thompson rely on the idea that ‘government’ is a sub-set of ‘governance’, and they (1996:183) emphasize that “the issue of control of economic activity in a more integrated internationalized economy is one of *governance* and not just of the continuing roles of *governments*”. As long as globalization remained as a minor and slight tendency, nation states were able to claim “a monopoly of the function of governance”. Once globalization turned out to be more and more effective in the course of time during the post-1980 period, nation states have inevitably started to lose this monopoly power. This is the reason why Çitak (2000: 59) argues that “the nation-state was much stronger during the Cold War”. Nonetheless, the major contention of Hirst and Thompson is that ‘the nation-state’ is *by no means* becoming history. There still exists a central role to be played by the nation states within the context of the newly emerging world order:

While the state’s capacities for governance have changed and in many respects (especially national macroeconomic management) have weakened considerably, it remains a pivotal institution, especially in terms of creating the conditions for effective international governance. . . . There can be no doubt that the era in which politics could be conceived almost exclusively in terms of processes within nation states and their external billiard-ball interactions is passing. Politics is becoming more polycentric, with states as merely one level in a complex system of overlapping and often competing agencies of governance. . . . But this complexity and multiplicity of levels and types of governance implies a world quite different from that of the rhetoric of ‘globalization’, and one in which there is a distinct, significant and continuing place for the nation state (Hirst & Thompson, 1996: 170, 183).

As such, Hirst and Thompson’s conception of ‘governance’ seems to run counter to that of the neoliberalism-minded globalization theorists. Neoliberals have usually tended to back the idea of the ‘end of history’ in terms of the decisive victory of the market over the state. In this neoliberal sense, ‘end of

history' and 'end of the state' were two sides of the same coin. Hirst and Thompson basically seem to attack this view. However, we should recall at this point that the 'governance model' pertains to the Post-Washington Consensus as a response – from within the liberal orthodox camp – to the failures of neoliberalism in the 1990s. Hence, even though Hirst and Thompson seem to argue against the globalization theorists of neoliberalism, they nevertheless take part in the liberal orthodoxy insofar as they envisage the future role of the state merely in terms of the maintenance of the "conditions for effective international governance". No less a liberal than Friedrich Hayek devoted his whole intellectual life to emphasize the absolute necessity that the state must assume no other function than ensuring the spontaneous existence and operation of the market. At this point, the continuity between Hayek and New Institutional Economics must be self-evident as far as the role of the state is concerned.<sup>58</sup> Here, once we realize this ultra-liberal core of 'governance', we can then argue that Hirst and Thompson (1996) are not so apart from the 'end of history' proposition. In our discussion of 'governance' in the context of international politics literature a few pages ago, we regarded 'governance' as a 'system of compromise' among the nation-states at international level. Now, in the 'light' of Hirst and Thompson, we identify 'governance' as a 'system of compromise' *directed towards establishing and maintaining a self-regulating global economy*.<sup>59</sup>

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<sup>58</sup> Hayek's (1944) *The Road to Serfdom* is the classic source of the case for a liberal global order, which is reminiscent of the global order envisaged by Hirst and Thompson. In this connection, let us immediately note a contradiction as to the contemporary model of neoliberal global governance: On the one hand, 'governance' is an attempt, at national level, to carry the market logic into 'the state', as we have already discussed in the context of New Institutional Economics and New Public Management. On the other hand, Hirst and Thompson (as Hayek, and the proponents of neoliberal governance) tend to envisage the global order to be established still by this type of states, which are nothing but market-like. The problem is as to whether a global system of market-like states is sustainable. Put differently, can such a system be maintained by *purely* economic, rather than political, states, which lack their traditional function of being the national *public authority*? In the fourth and fifth chapters, we will try to demonstrate in detail that such 'economic purity' in the global system is likely to yield unintended and self-defeating consequences.

<sup>59</sup> We will elaborate on this matter while constructing our perspective of 'Institutional International Political Economy' in the next two chapters, where we will be re-interpreting the concept and model of 'governance' as a coerced compromise between the commanding heights of the world-economy and power-poor majority of the nation-states.

We believe that *governments* will become marginalized to the extent that ‘governance’ flourishes, regardless of the debate as to whether ‘the nation-state’ will continue to assume a ‘pivotal’ role in future. This is a logical necessity since ‘governance’ entails that the state is to share its governing capacity and policy-making authority with the remaining non-state actors and organizations. This tendency at the level of international political economy is highly likely to result in the vanishing of *the state as we know it* (Strange, 1996; Ohmae, 1991). In juxtaposition to the possible developments at the level of international politics, the economic implications of the vanishing of ‘the state’ are especially important for the purposes of this thesis. Hence, we should think about how the world would look like in the absence of ‘the state’ in the economic domain, while it is becoming a domain of ‘the market’ *per se*. To be sure, the world then would be dominated by a kind of ‘market sovereignty’ in the name of ‘global economic governance’.

Even though it is impossible to take a clear-cut picture of the future at present time, we have the neoliberal experience of the 1980s and early 1990s at our service. We can assess at least the consequences of depriving the state of its economic functions by having recourse to the neoliberal period. The neoliberal recipe of the Washington Consensus was followed by major crises in the 1990s. Indeed, the Post-Washington Consensus has been erected upon this failure of the original Consensus. At this point, the difference between the old and the new Consensuses is nothing but the concept of ‘governance’. ‘Governance’ is a ramification coming from within neoliberalism *per se*. This is the reason why Rodrik (2002: 1) renames the Post-Washington Consensus as “Augmented Washington Consensus”:

Its proponents now argue that the Washington Consensus needs to be complemented by “governance” reforms and by country “ownership”. In this view of the world, the failure of the original Washington Consensus is due to an inadequate application of an otherwise sound set of principles. The Augmented Washington Consensus is bound to disappoint, just as its predecessor did. There are many things wrong with it. It is an impossibly broad, undifferentiated agenda of institutional reform. It is too

insensitive to local context and needs. It does not correspond to the empirical reality of how development really takes place. It describes what “advanced” economies look like, rather than proscribing a practical, feasible path of getting there. In short, the Augmented Washington Consensus is infeasible, inappropriate, and irrelevant (Rodrik, 2002: 1).

First of all, “Augmented Washington Consensus” dictates ‘governance’ reforms to the underdeveloped world. Such an effort presumes that the institutions of developed economies can be easily transplanted to the less-developed ones, as if ‘governance’ were a magic formula to establish ‘good public institutions’. The true nature of the Augmented Washington Consensus is discernible when we think of ‘governance’ in terms of the role it envisages for the state. Along a chain of thought from Hayek to New Institutional Economics (and to Hirst & Thompson as well), ‘governance’ has come to imply the necessity of the existence of the state in global socio-economic system. However, in the face of self-regulating global forces, what now seems to be badly needed is not only *the state along with the market* but also *the market within the state*. The state must work like a ‘spontaneous’ market order in the form of a self-coordinating institution since the ‘inevitable’ process of globalization necessitates so. In the light of this background, we can now turn to ‘good governance’ in some detail in terms of the conception of the World Bank – the originator of the term in its recent meaning.

In conjunction with the poverty alleviation schemes and anti-corruption measures of the Bank, the term ‘governance’ evolved over time to eventually mean ‘efficient public institutions’ as manifest in Bank’s call for ‘good governance’ in the developing world. Nowadays, the Bank maintains a comprehensive web page on *Governance & Anti Corruption* under the ‘Learning Programs’ of the World Bank Institute (WBI), where the importance of ‘governance’ is emphasized as follows:

A well functioning public sector that delivers quality public services consistent with citizen preferences and fosters private market-led growth while managing fiscal resources prudently, is considered critical to the World

Bank's mission of poverty alleviation and the achievement of millennium development goals.

In the meantime, the Bank has also developed a rich data-set of governance indicators under the leadership of Daniel Kaufmann – the Director of the Global Programs of the WBI. On the 9<sup>th</sup> of May 2005, the Bank released a new report, which includes updated and expanded data on 'Governance Indicators' for 209 countries for the years 1996, 1998, 2000, 2002 and 2004. It is out of the scope of our work to introduce and discuss the methodological and measurement-related details of the governance indicators as compiled by the World Bank. However, we construct below what we call the 'Governance Matrix of the World Bank' (See Table 1 in the next page) in order to submit an epitome of the Bank's conception of 'good governance'.

We composed this 'Governance Matrix' completely in line with a recent Bank-based study on governance (Kaufmann *et al.*, 2005). In 'Appendix D' of this study (pp. 130-1), the authors conceptualize 'governance' as "the traditions and institutions by which authority in a country is exercised". The six governance indicators in the Matrix define and unfold these traditions and institutions. We have to confess that these indicators represent undeniably 'good' phenomena. No rational man would try to denigrate these 'good' traditions and institutions. However, we argue without any loss of rationality that all these good things are indicators of not only 'good governance', but also of a high degree of economic development. A reasonable person would not object to the stylized fact that these indicators are generally higher in developed countries than the underdeveloped ones. In other words, the governance indicators of the World Bank can also be considered *implicit* indices of the level of development. This intuition must cast doubt upon the grand conclusion of Kaufmann *et al.* (2005), who insist that better governance causes higher per capita incomes, and not *vice versa*?

**Table 1. Governance Matrix of the World Bank**

<i>Dimension of Governance</i>	<i>Governance Indicator</i>	<i>Indicator as a measure of:</i>
The process by which governments are selected, monitored and replaced	Voice and Accountability	Various aspects of the political process, civil liberties and political rights; the extent to which citizens are able to participate in the selection of governments; the independence of media
	Political Stability and Absence of Violence	Perceptions of the likelihood that the government in power will be stabilized or overthrown by possibly unconstitutional and/or violent means, including domestic violence and terrorism
The capacity of the government to effectively formulate and implement sound policies	Government Effectiveness	The quality of public service provision, bureaucracy and civil servants; independence of the civil service from political pressures; credibility of the government's commitment to policies; the "inputs" required for the government to be able to produce and implement good policies and deliver public goods
	Regulatory Quality	The incidence of market-unfriendly policies; perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development
The respect of citizens and the state for the institutions that govern economic and social interactions among them	Rule of Law	The extent to which agents have confidence in and abide by the rules of society; perceptions of the incidence of crime; the effectiveness and predictability of the judiciary and the enforceability of contracts; the success of a society in developing an environment in which fair and predictable rules form the basis for economic and social interaction; the extent to which property rights are protected
	Control of Corruption	Perceptions of the exercise of public power for private gain (i.e., corruption); the effects of corruption on the business environment; "grand corruption" in the political arena or in the tendency of elite forms to engage in "state capture"

Interestingly, Kaufmann *et al.* (2005) are prepared to ‘scientifically’ refute these kinds of intuitions. They do so by means of statistical methods, by way of which they avert critiques that draw attention to: i) the possibility that ‘there exists an upward bias in perceptions of governance in rich countries simply because they are rich’ (32-36), and ii) the argument that ‘the weak governance performance of countries in Africa should be discounted in some sense because these countries are poor’ (36-38). Such statistical refutations seem to remain unconvincing insofar as the authors subscribe in advance to the weird hypothesis that higher per capita incomes do not imply better governance.

We do not deny that good governance matters for economic development. It certainly does. Indeed, it is our premise in writing this thesis that ‘the economic’ cannot be comprehended without any recourse to the analysis of institutions, which have been so far ignored in orthodox economics. We are also aware that ‘good governance’ is nowadays an important precondition for the creditors in allocating developmental aid. All the same, we insist that, irrespectively of what the ‘scientific’ and statistical procedures indicate by way of the use of superfluously aggregated data, the relationship between *good governance* and *economic development* must be a matter of *two-sided causation*. That is to say, the former must be both the cause and the effect of the latter – at least from an intuitive point of view. And there are circumstances in which intuition may show the truth even better than ‘the scientific’. Intuition is all the more considerable in the case of ‘institutions’, which are truly qualitative – and only *fictitiously* quantitative – variables.

In this connection, especially the last four governance indicators are important insofar as the target of our work is concerned. Since Kaufmann *et al.* have no option to *statistically* refute our intuitive comments below; we feel free to interpret these indicators in the manner as follows (The reader is invited to compare and contrast our ‘subjective’ exegesis with the ‘divine’ meanings of the indicators in Table 1):

- i) *Government effectiveness* implies an ‘efficient’ and ‘dynamic’ state mechanism, which is immune from political ‘adulteration’. Efficiency and dynamism of the self-regulating market is to be emulated by and transplanted to the state, which should become a ‘flexible’ nest of politically independent public institutions and civil society organizations. As such, neoliberal policies should be perpetuated, and policy-making capability of the state should be exterminated.
- ii) *Regulatory quality* implies reliance on the self-regulating market at both the domestic and international levels. State-led policies designed for increasing social welfare or protecting society from the purely economic logic of the market fall into the undesirable domain of “excessive regulation”, and must be avoided.
- iii) *Rule of law* implies an obedient society, which is apolitical so that no one questions the economic and social *status quo*. Nascent conflicts arising from class interests should be avoided in advance by the state, which should also ensure the supremacy of the allegedly ‘objective’ rules of the market.
- iv) *Control of corruption* implies the protection of businesses against those who possess and exert their privileged power in economic and political affairs. But what if the privileged few in society, who distort state mechanisms for their self-interests, are businesses themselves?

In the rest of this study, it is our task to endorse these seemingly subjective interpretations in a social-scientific way. With this in mind, we will start to develop our perspective of Institutionalist International Political Economy (IIPE) in the next chapter. Let us now conclude this chapter by establishing the

link between our thesis and ‘good governance’ as defined in the Governance Matrix of the World Bank.

### **3.5. From ‘Good Governance’ to ‘Institutional International Political Economy’**

As we have already explained, we use the phrase ‘the state as we know it’ as ‘the state before neoliberal governance’. Backed mainly by ‘New Institutional Economics’ and ‘New Public Management’, neoliberal governance entails essential changes in the traditional institutional structures of the state. Conventionally, mechanisms and institutions of the state were originally defined and constructed in terms of *political* organizations that constitute *public authority* at socio-economic level. However, the mentality of governance attempts to re-define and re-construct the state in terms of *economic* processes that constitute *market sovereignty* at socio-political level. The whole set of established socio-political institutions and regulations pertinent to ‘the state as we know it’ are nowadays being converted into *purely* economic ‘working rules’ pertinent to private firms, which, by definition and construction, comply with market forces. As such, we consider ‘neoliberal governance’ as a historical politico-economic revolution. Never in capitalist history had the ‘commanding heights’ of the world-economy attempted so directly and radically to alter the essence of the state apparatus, which they used to utilize for a ‘double purpose’: i) To manipulate the market for oligopolistic/monopolistic profits (to be earned from not only the *production* of commodities but also the *circulation* of commodities and financial capital), and ii) To overcome systemic crises by making use of the state as a re-distributer of incomes and re-allocator of resources to mitigate the anti-systemic pressures arising from the socio-economic deterioration of the masses. At this point, let us proceed in the light of the following passage:

To speak of government policymaking without awareness of the distinction and conflict between what Pierre Bourdieu (1999:2) has called the *left hand of the state*

(those agencies responsible for education, health, and welfare programs), and the *right hand of the state* (those dealing with finance, trade, and investment), is to miss the central contradiction built into the political system of capitalist governance. The issues with which GSEGI [global state economic governance institutions] deal have consequences for the broader public and directly and indirectly affect such areas as employment and the environment (which domestically are the responsibility of the left hand of the state) which generate, use and influence patterns of resource allocation that are inadequately addressed in international fora which preclude such “left” side of state functioning from their self-defined design. GSEGI increasingly impact domestic economic areas and political relations within countries. “Left hand” institutions globally are designed to be talk shops. “Right hand” institutions can function as mailed fists (Tabb, 2004: 27-28, emphases ours).

All in all, our thesis is quite unconventional, or even controversial. Let us now summarize it in the light of what we discussed so far. In the final analysis, we argue that ‘good economic policy’ (*i.e.*, state-led development as proposed by the conventional heterodoxy represented best by Chang & Grabel) and ‘good governance’ (*i.e.*, market-oriented development as proposed by the orthodoxy represented best by the World Bank) are, in fact, *the two sides of the same capitalist coin*. Furthermore, we also argue that ‘good economic policy’, if implemented, may result in a resurrection of capitalism from its current crisis, whereas ‘good governance’ as an ultra-liberal global project carries the potential of generating a ‘spontaneous’ collapse of the capitalist world-system.

At this point, we are aware of the fact that our task is rather formidable as far as convincing the reader of our thesis. However, we invite the reader, for a while, to recall the post-war period of the Golden Age of capitalism managed by International Keynesianism in terms of welfare- and development-oriented ‘social states’. Those types of states were regarded as ‘social’ since they made ‘good economic policy’. ‘Good economic policy’ undeniably yielded considerable improvements in terms of welfare and development in the core and the periphery, respectively. But did not ‘good economic policy’, at the

same time, save capitalism from collapse (after the turmoil of the Great Depression followed by the devastating Second World War)? We think it did. And as far as the historical world-systemic rules of capitalism are concerned, was it feasible to maintain ‘good economic policy’ forever, for instance all along the 1970s, 1980s, 1990s, and 2000s? By no means!

From the fifteenth century onwards, capitalism as a historical world-system has always reproduced itself as a secular cyclical process of ‘material expansion’ followed by ‘financial expansion’ (Arrighi, 1994; Arrighi & Silver, 1999). Phases of material expansion have been usually accompanied by state-led *economic regulation* (‘good economic policy), whereas phases of financial expansion have generally corresponded to market-oriented *economic freedom* (‘*laissez-faire* policy). These repetitive cycles of physical capital accumulation and financial capital accumulation characterize the ‘secular trend’ of capitalism as a historical world-system. In other words, so long as capitalism remains as the prevailing world-system, it is reasonable to argue that the pendulum will continue to swing between the two capitalist modes of exchange: From ‘economic regulation’ to ‘economic freedom’, and so forth (Pirenne, 1953). From this point of view, conventional state-led developmental proposals of the traditional heterodoxy may in fact be the true requirements for the contemporary capitalism to survive in the present conjuncture. The latest financial expansion in the world-economy started in the late 1960s, as accompanied by the ‘economic freedom’ of neoliberalism starting from the late 1970s. After about 30 years of financial expansion, the capitalist pendulum is normally expected to swing back towards ‘economic regulation’ in the near future. Will this happen or not? This is the problem! On the part of the ‘commanding heights’ of the world-economy, we observe insistent counter-attempts that defy the ‘secular trend’ of capitalism: ‘Good governance’ is dictated as a global project, which seems to ‘artificially’ protract the normal life-cycle of the latest financial expansion. *This is our first reason* why we argue that such an ultra-liberal attempt bears the earmarks of a self-defeating process at the level of the capitalist world-economy.

*Secondly:* We argue that ‘good economic policy’ and ‘good governance’ are typically capitalist attempts to dictate ‘state involvement’ and ‘free markets’, respectively. And, ‘good economic policy’ remains *conventional* in that it does not call for any essential structural change in the world-system (in terms of altering the institutional structure of ‘the market’).<sup>60</sup> What about the orthodoxy, which nowadays dictates ‘good governance’? Does it also remain conventional, like the heterodoxy? In this respect, we observe a second anomaly as far as the ‘secular trend’ of capitalism is concerned. ‘Good governance’ is a radically *unconventional* attempt as compared to ‘good economic policy’. Proponents of ‘good governance’ are trying to accomplish a very unconventional task, *which was never before attempted in the long history of capitalism*: Re-constructing ‘the state’ after the mirror image and in the form of ‘the market’. Governance is not merely an attempt to adapt ‘the state’ to the operation of ‘the market’ at global level. It is also an attempt to constitute *markets* within the structures and mechanisms of ‘the state’. In other words, ‘good governance’ entails the conversion of ‘the-state-the-political’ into a *purely* economic institution to end up obtaining a ‘state-the-economic’. So, why may this yield ‘self-defeating’ consequences for capitalism?

It is a well-known argument that the long history of capitalism is characterized by the utilization of ‘the state’ as a tool at the hand of the capitalists. But, we are saying something more. It is for the first time in capitalist history that the commanding heights of the world-economy are so radically interfering with the *institutional essence* of the state. ‘Governance’ is an unprecedented project in that ‘the state as we know it’ is being eliminated. Put differently, *‘left hand of the state’ is being cut!* All along the centuries-old capitalism, commanding-height capitalists never undertook to do such a thing. At times they used ‘the right hand’, at times they used ‘the left hand’ (and at times both together) in

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<sup>60</sup> To our knowledge, no heterodox social scientist has so far proposed to re-define and reconstruct ‘the market’ after the mirror image of ‘the state’. In general, Keynesians only emphasize the need for state involvement in the economy insofar as the market fails; whereas orthodox Marxists underscore the need for directly overthrowing and completely eliminating the market.

accordance with the requirements of world-systemic circumstances. But they had never attempted to cut and throw away ‘the left hand’ (by completely altering the institutional structure of ‘the state’ so radically via ‘good governance’).

Hence, the success of the governance project may mean that there will remain only ‘an augmented market’ in the hands of the capitalists, who will then have to overcome cyclical crises by means of a *purely* economic logic. Can ‘the market’ regenerate itself in the absence of ‘the state as we know it’? We answer in the negative in the light of the ‘Institutional International Political Economy Perspective’ that we develop in the next chapter.

Finally, if our *diagnosis* is correct, anti-capitalist circles had better re-define and re-organize themselves to take advantage of this unprecedented capitalist development. For instance, instead of keeping on merely criticizing ‘governance’ in the name of a nostalgic recall for ‘the social state’ of the Golden Age of capitalism; they may well start to think about how to respond by way of governance project to the eventual demise of the capitalist world-system.

## CHAPTER 4

### AN INSTITUTIONALIST INTERNATIONAL POLITICAL ECONOMY (IIPE) PERSPECTIVE *VIS-À-VIS* THE GLOBAL ‘GOVERNANCE’ MODEL: THE FOUNDATION

#### 4.1. The Tenets of Our IIPE-Perspective

Our subject-matter is ‘governance’, whereas our aim is to develop a thought-provoking and conventional-wisdom-distorting perspective that would cast doubt upon ‘governance’ – a celebrated and fashionable yet flawed and ambiguous catch-word so earnestly embraced by the powerful politico-economic circles in the contemporary world-economy. For a retrospective analysis of the origins of contemporary times, we consider it useful to turn to three influential and now-classic treatises published during the 2<sup>nd</sup> World War: *Capitalism, Socialism and Democracy* by Joseph Schumpeter (1942), *The Great Transformation* by Karl Polanyi (1944), and *The Road to Serfdom* by Friedrich Hayek (1944). Thereby, we will question whether a ‘purely’ economic social system, which is refined from political institutions, can survive. To do so, we will elaborate on Geoffrey Hodgson’s (1984, 1988, 1999, 2001a, 2001b) contributions regarding the so-called ‘impurity principle’ and ‘dominance principle’ – two formative tenets of contemporary Institutional Economics. In due course, Fernand Braudel’s (1981, 1982, 1984) extraordinary historiography will be utilized as a fertile ground on which to rethink ‘liberal economic thought’, which we will re-name as ‘capitalist economic thought’ in the end.

In this construction of an IIPE-perspective, we choose Hayek as a doorway to economic liberalism since he was one of the most uncompromising liberals that the intellectual world has ever seen. As the most influential and well-known member of the Austrian school of economics, the lifelong mission of Hayek – Nobel laureate in 1974 – can be considered a dedicated struggle to demonstrate that individual liberty is feasible only within a ‘spontaneous’ market order encompassed by the institutions of capitalism. As such, Austrian-Hayekian liberalism is one of the most relevant research programs on the way to understanding the essence of liberal economic thought.

All in all, if one searched for the ‘antidote’ of Hayek, the most indisputable choice would be Karl Polanyi. An interdisciplinary, if not transdisciplinary, critic of the idea of a self-regulating market system, Polanyi had come with an entirely different diagnosis regarding the ‘liberal creed’. He basically demystified the ‘19<sup>th</sup> century civilization’, whence land, labor and money were artificially converted into ‘fictitious’ commodities by means of the *deliberate* policies of ‘liberal’ states, first in England and then on Continental Europe. Polanyi’s contention is that a self-regulating market system is a “stark utopia”. Self-regulation is simultaneously self-defeating since it entails the separation of the political domain from the economic infrastructure, the two ‘embedded symbionts’ of the social matrix. Contrary to Hayek, Polanyi insisted that planning and collective regulation would pave the way towards “freedom in a complex society”.

Besides, Schumpeter’s work can be regarded as complementary to that of Polanyi. Schumpeter’s analysis yields that the dynamism of the economic component of capitalism destroys its more or less steady politico-cultural component, without which capitalism can neither take shape nor survive. Therefore, one can find a rich set of buttresses in the works of both Polanyi and Schumpeter, if a truly institutionalist social-scientific perspective is to be formulated by means of the ‘impurity principle’ and the ‘dominance principle’

as developed by Geoffrey Hodgson. According to these principles, socio-economic systems involve dominant economic purities, while their survival depends on the maintenance of such non-economic impurities as the political institutions and cultural values, which together constitute the integral components of the system as a whole. Hence, a process of economic purification implies a tendency towards the self-destruction of a socio-economic system.

Similar to Polanyi's prognosis of a 'great transformation' from the self-regulating market towards a human-regulated system of common will, Schumpeter predicted a transition from 'self-innovating' capitalism towards centrally planned collectivism. For both Polanyi and Schumpeter, the collapse of the previous socio-economic system was basically due to the 'systemic' elimination of 'necessary impurities' that held the system in solidarity. Furthermore, Polanyi envisaged the newly emerging socio-economic system in terms of "economic collaboration of governments *and* the liberty to organize national life at will" that would put an end to "[t]he institutional separation of politics and economics, which proved a deadly danger to the substance of society . . ." (Polanyi, 1944: 254-255). And, Schumpeter (1942: 172-199) put forward a blueprint, according to which a socialist system could fare even better than competitive and monopolist versions of capitalism in terms of socio-economic efficiency.

However, unlike Polanyi's framework of analysis of 'the market', Schumpeter's conception of capitalism can be said to be avowedly abstract. While Polanyi focused upon and made use of the 19<sup>th</sup> century England with an eye to Continental Europe as his temporal-spatial unit of analysis within his historically conscious scheme, Schumpeter chose to remain in a fairly theoretical domain while conceptualizing capitalism. In other words, Schumpeter's conception of capitalism does not specifically refer to a particular period of time or a designated place. In Schumpeter's analysis, one cannot find a clear hint that indicates whether he is dealing with capitalism at

national, regional or international level. At first glance, such an abstract conception of capitalism seems to be vulnerable to criticism due to lack of empirical ground and ambiguity of the unit of analysis. Yet, one must recall that Schumpeter's work under consideration is an original account of capitalism that he distilled from a synthesis of the works of two giants; namely, those of Karl Marx and Max Weber, not to mention the 'general equilibrium' idea of Léon Walras. As a self-proclaimed student of Marx and follower of Weber in terms of socio-historical formation, it would be unfair to blame Schumpeter for ignoring to establish an empirical fulcrum. On the other hand, the seeming ambiguity of the unit of analysis in his conception of capitalism may well be intentional. Indeed, it would be all the less coherent to immure capitalism into a 'closed' unit of analysis, while identifying it with its incessant dynamism. Moreover, Schumpeter's 'open-systemic' conception of capitalism possesses the virtue of lending itself for developing truly institutionalist perspectives at any level of interest – be it national, regional or world-wide. It is in this vein that we will superimpose a world-economy level of analysis upon Schumpeter's conception of capitalism. In other words, we will utilize the Schumpeterian scheme of capitalism to bridge the distinctive 'world-systems analysis' to be found in the respective works of Karl Polanyi and Fernand Braudel, whose conceptions of 'the market' are seemingly incompatible at first sight.

Our attempt to incorporate Braudel's ideas into our thesis owes to the fact that Braudel was one of the most influential economic historians in the twentieth century. He was regarded as the 'Pope of History' and the 'Victor Hugo of French History'. However, the 'ability to influence' is not the only attribute that we think highly of his 'transdisciplinary' contributions. He was influential despite the fact that he was 'controversial' at the same time. Indeed, his conception of capitalism was an attempt to situate "everything upside down":

[Braudel] developed a theoretical framework which went against the two theses that both of the two great antagonistic worldviews of the nineteenth century, classical liberalism and classical Marxism, considered central to their approach. First, most liberals and most Marxists have argued that

capitalism involved above all the establishment of a free, competitive market. Braudel saw capitalism instead as the system of the antimarket (*contre-marché*). Second, liberals and most Marxists have argued that capitalists were the great practitioners of economic specialization. Braudel believed instead that the essential feature of successful capitalists was their refusal to specialize (Wallerstein, 1991b: 354).

Following Immanuel Wallerstein (1991a), it is our contention that the social science of the twenty-first century should be re-constructed in such a way as to rethink social phenomena within a truly new scheme, which would transcend the mental remnants of the nineteenth century. For about two centuries, our social-scientific horizons have come to be dominated by either ‘individual self-interests’ or ‘interests of social classes’ as the engine of socio-economic evolution. We do not deny that interests of individuals or classes influence the path of socio-economic change in time and space. Indeed, we believe that both the individual-centered and class-oriented analyses possess a considerable explanatory power in understanding socio-economic phenomena. Nonetheless, we choose to participate in neither of the liberal and Marxist camps. One of our aims is to enrich the set of analytical tools whereby socio-economic phenomena can be understood better. Hence, our focus of emphasis will consciously exclude a direct analysis of the interests of the individual or the classes. We will basically focus upon two major institutions – the market and the state – as our main units of analysis of capitalism-as-a-historical-world-system.

The liberal and Marxist research programs are used to situate themselves as polar opposites in terms of their deeply rooted individualism and collectivism, respectively. Interestingly, however, they share the views that: i) the market is a precondition for the existence and survival of capitalism, and therefore ii) the ‘divine’ or the ‘satanic’ aspects of capitalism come from the market. As far as the first view is concerned, we agree. More precisely, the market is a fundamental and indispensable institution of capitalism. Yet, in addition, we will insist that the market can do without capitalism. Put differently, we will

not conceptualize capitalism and the market as the two sides of the same coin or Siamese twins. Instead, we will conceptualize the two as “exact opposites” in accordance with Braudel’s historiography. And, as far as the second view is concerned, we simply disagree. In the pages that follow, we will conceptualize the market as a “neutral container” (Özveren & Özçelik, 2001) beneath the socio-economic matrix. We will argue that this “neutral container” reproduces what flows from the top into it. If economic power differentials flow down, the market reproduces them as they are. If economic equalities flowed down, the market would also reproduce them as they were. The point here is that the socio-economic matrix may take different forms depending on circumstances, which, in turn, may yield ‘anti-social’ or ‘pro-social’ consequences.

Now, we start with the Austrian-Hayekian conception of ‘the market’ as a prominent case for economic liberalism.

#### **4.2. Austrian-Hayekian Political Economy as Essence of Liberal Economic Thought**

For the members of the Austrian school of economics in general, and for Friedrich von Hayek in particular, the market is an extraordinary institution, which emerges and evolves spontaneously and hence functions efficiently. In this regard, ‘superiority of spontaneity’ is a crucial Austrian-Hayekian notion, which implies the ‘inferiority of human design’ or the triviality of planning and state interventionism. Moreover, for Hayek, individual liberty is only possible within a spontaneous market order encompassed by the institutions of capitalism. Indeed, Hayek used to present the self-regulation of the market as a first-best model for the functioning of all other institutions. This being the case, one can well discern a kind of Austrian-Hayekian philosophy behind the contemporary model of governance at national and international levels. Therefore, a concise inquiry into Hayek’s conception of the market and his uncompromising economic liberalism will be rather conducive to a better understanding of the concept of governance. Of course, it would be far beyond

the scope of a study such as this to delve into a thorough analysis of the Austrian-Hayekian attitude towards market-, state- and capitalism-related phenomena.<sup>61</sup> Hence, we will confine ourselves to submitting a general epitome of Austrian school of economics, of which Hayek was the most prominent member.

The Austrian school conceptualizes socio-economic institutions like markets, money and the market economy as the outcome of ‘organic’ evolutionary processes rather than that of ‘pragmatic’ synthetic mechanisms. It is maintained that such institutions had emerged throughout a ‘natural process’, and not as the intended product of a consciously designed ‘artificial mechanism’. In this respect, the idea of the ‘superiority of spontaneity’ relies on an implicit and ‘transcendental’ premise that associates ‘the natural’ with ‘the good’ and ‘the artificial’ with ‘the bad’. Relying on the insight that the emergence of commodity-money along with the primitive markets was a ‘natural’ phenomenon, the Austrian school insists that it is impossible to have sufficient wisdom to properly revise and re-design such ‘organic’ institutions. And, hence, monetary phenomena as well as the market economy must accordingly be refined from regulation and planning so that the most beneficial social consequences can be attained spontaneously.

Even if coined by Hayek, the notion of ‘spontaneous orders’ is essentially due to Carl Menger – the founder of the Austrian school as of the 1870s. Inspired by the Scottish Enlightenment engendered by such figures as Adam Ferguson, David Hume and Adam Smith, Menger was one of the first social scientists to deal systematically with the origins and evolution of social institutions like law, language, state, money, market etc. As an important item in the history of economic thought, Menger’s well-known quarrels – *Methodenstreit* – with the methodologically holist German Historical School basically involved ‘invisible hand explanations’ as to the emergence of social institutions. Menger had

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<sup>61</sup> For a more detailed analysis of Austrian school, see Özçelik (2005), on which this section partially relies.

formulated “the most noteworthy problem of the social sciences” in terms of a thought-provoking question: “*How can it be that institutions which serve the common welfare and are extremely significant for its development come into being without a common will directed toward establishing them?*” (Menger, 1883: 146). In answering this question, Menger was not only rejecting the collectivistic conceptions of the emergence of social institutions, but also paving the way for a radically subjectivist methodological individualism, which later came to be a distinctive tenet of the Austrian school.

In Menger’s terms, the true parents of most socio-economic institutions were to be found within the complex and ‘natural’ interaction of individual self-interests. Individual economic agents are ‘purposeful’ as they always pursue their own economic interests. And, in line with Adam Smith’s conception of the formation of ‘common good’, individuals – while behaving *purposefully* – contribute *unintentionally* to social welfare through a proliferation of well-being possibilities. For instance, according to Menger’s ‘evolutionary’ analysis, markets as spatial institutions and commodity-money as an institution of exchange had come into being and evolved throughout a ‘natural’ (or ‘spontaneous’) and beneficial selection process. Emergence of neither markets nor commodity-money was envisaged beforehand. This emergence process had involved no mechanism of human design or collective will directed towards their establishment as concrete institutions (Menger, 1892, 1883, 1871). The primordial forms of markets and money had emerged gradually through the self-interested efforts of individual economic agents, who always sought after satisfying their individual needs as completely as possible. As such, neither the market as the embryo of a market economy nor commodity-money as an archaic prerequisite of monetary economies had to do with human design or state intervention. Indeed:

[C]ertain commodities came to be money quite naturally, as the result of economic relationships that were independent of the power of the state (Menger, 1981: 262). [L]egal stipulation demonstrably had the purpose not so much of introducing a certain item as money, but rather the

acknowledgement of an item which had already become money (Menger, 1963: 153). [B]y state recognition and state regulation, this social institution of money has been perfected and adjusted to the manifold and varying needs of an evolving commerce. . . . All these measures nevertheless have not first made money of the precious metals, but have only perfected them in their function as money (Menger, 1892).

In this respect, Menger's individual-centered evolutionary explanation of the emergence and evolution of social institutions has two crucial implications. First, the pre-modern forms of markets and money constitute the very genesis of the modern market economies or the monetary economies that have existed and survived from the post-feudal era to our times. Secondly, such advanced forms of economies must also involve no human design by their very nature. In other words, market economies must also be the 'natural' consequences of the interaction of individual self-interests, which spontaneously culminate into such complex and comprehensive institutions. Hence, we can derive the following conclusion from Menger's analysis: Since some social institutions emerge as the consequence of complex 'natural' processes that do not involve human calculation and design, human beings cannot have the adequate wisdom to alter and re-design them in a fully conscious manner. And if this is actually the case, then social formations like the markets, money and the market economy must be accordingly exempt from design, regulation, and planning.

This is, indeed, a concise exposition of the core rationale behind economic liberalism in general and Austrian-Hayekian pro-marketism in particular. However, while Menger had formed his ideas in the context of a methodological and social-scientific debate in the last quarter of the nineteenth century, his most prominent Austrian followers, Ludwig von Mises and Friedrich von Hayek, found themselves confronted with a real and comprehensive effort that attempted to design socio-economic institutions in a conscious and planned manner. Namely, it was the socialist context of the Soviet Revolution of 1917 that formed a heated ground for further debates in the second quarter of the twentieth century.

As an across-the-board form of ‘human design’ imposed upon socio-economic institutions, socialist central planning was being attempted for the first time in history. Equipped with the Mengerian heritage, it was, of course, no surprise that Mises and Hayek constituted the most uncompromising, ultra-liberal and pro-market side of a series of ideological discussions. Indeed, it was Mises (1922) who started the well-known ‘socialist calculation debate’ by declaring the impossibility of rational “economic calculation in the socialist commonwealth”. In a similar vein, Hayek can be said to have devoted his life to fighting against socialist theory and practice. While defending his grand thesis on the superiority of a spontaneous market order, Hayek showed up as one of the most prolific and influential political economists of the twentieth century.

Both Mises and Hayek considered comprehensive central planning under socialism as the exact opposite of the free market system under capitalism. Mises and Hayek singled out the self-adjusting market prices as indispensable to rational economic decisions. While running after their self-interests by ‘purposefully’ observing the price signals provided by the market, individuals act so as to contribute to ‘unintended’ yet beneficial social consequences, which, in turn, constitute an intricate and spontaneous socio-economic order. This unintended yet beneficial order emerges and survives thanks to the spontaneous culmination of such individual activities as the anticipation of and speculation on ‘tacit’ market knowledge.

The ultra-liberal pro-market attitude of Mises and Hayek revealed them to be the most prominent participants in the ‘socialist calculation debate’. They insisted that the market involves a vast array of heterogeneous data. The complexity of the market data implies that the market knowledge is tacit. That is to say, market agents need some sort of informative signals in order to behave rationally. Moreover, the abundance of tacit market knowledge implies that ‘uncertainty’ is inevitable on the market since no market agent is able to

fully comprehend and process such a huge set of information. In this Austrian context, self-adjusting prices generated by the market process efficiently convert the tacit market knowledge into informative signals so long as the process is not intervened. Observing these signals, market participants can make rational decisions by converting uncertainty into calculable risks. In this sense, the market is a dynamic process of discovery, whereas the market prices provide the market agents with correct signals. As such, the central planning authority under socialism can by no means fully comprehend such a huge set of information so as to disseminate correct signals to the agents in the economy. In its raw form, the available set of market data is like a foreign language. It is the natural task of the market process to translate the raw market data into the native language of the economic agents.

By way of this construction, the Austrians consider the efficient functioning of spontaneous institutions as a matter of self-adjustment. For the Austrians, economic policies implemented by government inevitably distort the efficiency of spontaneity. Hayek's insistence on the detrimental consequences of 'deliberate' monetary policy and 'artificial' credit expansion is noteworthy at this point. First of all, the Austrians argue that 'money creation' by government along with the banking system is a biased process that aims at re-directing spending towards pre-determined or favored sectors. Market agents form expectations and take decisions by observing the price signals provided by the market process. 'Natural' operation of the market process generates signals in the form of correct relative prices. However, the political motivation of governments usually forces them to carry out 'artificial' credit expansions. This distorts the spontaneously efficient monetary process. Because of the defective signals in the form of an illusionary availability of credit in the system, economic agents start to form wrong expectations. The result is the incompatibility of the decisions of savers and investors on the one side, and of producers and consumers on the other. Self-coordination of the economy is thus dismantled through monetary interventionism. The Austrian warning is that 'deliberate monetary policy' or 'artificial credit expansion' is bound to

result in economic crises since it leads to incorrect signals and misinformation. The Austrians thus dissent from the concentration of economic power in a few hands favored and sustained by the state apparatus. Unless the competitive market forces are allowed to diffuse power uniformly by disseminating correct signals, economic crises will keep on hitting the bulk of society.

To sum up, a particular version of Austrian economics can be easily identified with its peculiar and heavy accent of economic liberalism. From Carl Menger (the founder of the Austrian school in the 1870s) to Ludwig von Mises and Friedrich Hayek (the most influential members of the school in the second and third quarters of the twentieth century), the hard-core continuity within the school has been maintained primarily by a secular trend of ‘pro-marketism.’ Also, Israel Kirzner and Murray Rothbard (Mises’ students at New York University) along with Ludwig Lachmann and George Shackle (Hayek’s pupils at London School of Economics) were well able to maintain this pro-marketism. In addition to their radically subjective individualism and essentialism, the school’s attitude towards the market has proven to be a distinctive characteristic. And, within this distinctive attitude towards the market, ultra-liberalism has regularly cheered to the echo: “A market economy, even the purest of pure, can never be a utopia” (Kirzner, 1963: 308). In contradistinction, however, Karl Polanyi’s “thesis is that the idea of a self-adjusting market implied a stark utopia” (Polanyi, 1944: 3).

#### **4.3. *The Great Transformation* as the ‘Antidote’ of Economic Liberalism**

In 1944, now-classic two books emerged out of the dust-and-heat of the Second World War: *The Road to Serfdom* by Friedrich A. Hayek and *The Great Transformation* by Karl Polanyi. It is not surprising that these two political economists dealt simultaneously with the post-war governance possibilities that the world was then to face. Interestingly however, the two

books were polar opposites in terms of their conception of the social institution of market *vis-à-vis* the possibilities of planning.

Throughout his life, Hayek (1935, 1944, 1949, 1960, 1967, 1982, 1988) conceptualized the market as an efficient order, which emerges and evolves as a natural outcome of the complex interaction of self-interested individuals. He insisted that a market-coordinated economy gives rise to a ‘spontaneous order’, which, in turn, is the best alternative for the simultaneous maintenance of individual freedom and social well-being. In other words, free operation of the market process ensures an egalitarian diffusion of economic power among the members of society. The market defies the concentration of economic power at the hands of the privileged few in society. Thus, the spontaneous market order is nothing less than a pre-requisite of what may be called ‘economic democracy’. Moreover, in Hayek’s terms, political democracy is conceivable only if economic democracy as such exists and survives. Therefore, interventionist and socialist regimes, which entail *de facto* annihilation of the market, are bound to eliminate democracy at both the economic and political levels. Concentration of economic (and thus political) power at the hand of a single entity (such as a central planning bureau) characterizes a kind of authoritarianism that not only dictates the people what to produce and consume, but also converts them into *means of production* owned by the state. Hence, abolishing the market is an attempt that paves the road to serfdom (Hayek, 1944).

In contra-distinction, Polanyi’s thesis is that free operation of the market entails *de facto* annihilation of society as a whole. A ‘self-regulating market system’ is necessarily self-defeating at the same time. Self-regulating market presupposes a separation of the economic and the political functions of society. As such, the economic sub-structure, so to speak, is to be artificially re-constructed independently of the political domain so that the economy can operate freely in accordance with a *purely* economic logic. Whereas economic logicality yields material success, it nevertheless erodes the ‘social nest’ without which the

system as a whole cannot survive. The integrity of the social nest relies on the cohesion of three basic ingredients: human-beings, the nature surrounding them, and the institutions of exchange that they utilize for satisfying reciprocal needs. However, a self-regulating market system requires the construction of ‘flexible’ markets for labor, land and money. In other words, a market-dictated economy presupposes the conversion of labor, land and money into ordinary commodities. It is clear that those are not *genuine* commodities. Indeed, they are the cohesive elements of any *socio-economic* system. Once they are bought and sold like commodities, the socio-economic system tends to reduce to a purely economic system. Such a system inevitably yields dislocation and degradation on the part of the non-privileged many in society. The resulting social oppression is so stifling that ‘turbulence zones’ emerge across the self-regulating world-economy over time. Even though the cradle of the self-regulating market system was nineteenth-century England, this system generated long-run effects at world-scale. For instance, “[i]n order to comprehend German fascism, we must revert to Ricardian England” (Polanyi, 1944: 30). Consequently, insistence on a self-regulating market system at the level of the world-economy is an attempt that may well pave the road to fascism.

At this point, there emerges a bare paradox. For Hayek, getting rid of the spontaneous market order is bound to yield a kind of authoritarianism, which is reminiscent of serfdom. For Polanyi, insisting on the self-regulating market system is likely to yield another kind of authoritarianism, which once took the form of fascism. Let us phrase this paradox as the *Hayek-Polanyi polarity*, to which we will return in the following pages. It suffices at the moment to mention that this polarity arises essentially from a difference of opinion concerning the conception of the market as a socio-economic institution.

Neither Hayek nor Polanyi was an ordinary political economist. Both of them proved to possess a nimble wit to analyze socio-economic phenomena. Hayek shared the Nobel Prize in 1974 with Gunnar Myrdal (who, like Polanyi, had a

vigorous bent for institutionalism), whereas the contemporary significance of Polanyi's work has come to be appreciated for the last two decades or so. The revival of liberal ideas during the late 1970s has much to do with Hayekian political economy. Nowadays, Austrian school of economics, of which Hayek was a leading member, is regarded as the main source of "political and moral philosophy" of neoliberalism of the last 25 years (Chang, 2002a: 540). The influence of Polanyi is explicitly discernible in the works of leading institutional economists (Hodgson, 1988: xvii, 2001b: 71) and world-system analysts (Arrighi, 1994: 255-258, 327-328; Wallerstein, 2000: xxii) among many other scholars of social science. In sum, despite their above-mentioned polarity, their research programs have been taken seriously by a significant multitude of policy-makers and theorists. As such, both Hayek and Polanyi deserve to occupy the agenda of every prudent political economist, whose task is to seek for and contribute to a better understanding of economic, political and social phenomena.

Is there any exclusive reason to make us refrain from re-conceptualizing the market in its true meaning and implications by means of a synthesis of two polar attitudes? We think not. This exercise of exegesis may be regarded as 'social-scientific dialecticism', which we will attempt in this section. Here we define our task as illuminating the true nature of the interaction of the market, the state and society. At this point, we believe that our likelihood of a better understanding would be heightened, if we could give a convincing answer to the following question: Can 'spontaneous' market orders survive in the long-run in the context of a socio-economic system such as capitalism?

In the search for an answer to this question, starting with the Hayek-Polanyi polarity has one seeming limitation. Neither Hayek nor Polanyi concentrates on 'capitalism' as either a definite unit of analysis or a core conceptual category. It is typical for the members of the Austrian school (and also for most liberals) to consider the market economy and capitalism more or less the same thing. Hence, they presumably do not see any need for analyzing capitalism as a

distinct item on their research agenda. Hayek was no exception in this regard. On the other side, Polanyi had a clear-cut target: the nineteenth-century civilization, which was disseminated from England through the self-regulating market system, which, in turn, was unique to that era. If Marx conceptualized capitalism in terms of a specific *mode of production*, Polanyi perhaps chose to accomplish a similar task by referring to a specific *mode of exchange*. Be that as it may, Polanyi's critique is not essentially directed towards capitalism *per se* as we know it. Hence, questioning the viability of spontaneous market orders independently of 'capitalism' may remain an abstract effort at first sight. However, this seeming distinction, we believe, provides the researcher with preliminary analytical tools, by way of which a further inquiry into capitalism may then be pursued better. Indeed, we delve into the Hayek-Polanyi polarity with this in mind. In other words, we will utilize this polarity as the basis of our synthesis concerning the conception of capitalism carried out by Schumpeter and Braudel.

When Polanyi published his *magnum opus* just before the end of the Second World War, he declared in the very first sentence that the self-regulating market system pertaining to the nineteenth century (1815-1914) was being replaced by a new world order: "Nineteenth century civilization has collapsed. This book is concerned with the political and economic origins of this event, as well as with the great transformation which it ushered in" (Polanyi, 1944: 3). After analyzing in detail the emergence and the evolution of the "nineteenth century civilization", Polanyi identifies the major reason behind its disintegration as "the measures which society adopted in order not to be . . . annihilated by the action of the self-regulating market" (Polanyi, 1944: 249). Hence, Polanyi's diagnosis is that the self-regulating market system proved to be socially destructive in the final analysis. Upon this diagnosis, Polanyi constructed a prognosis of a "great transformation" towards "freedom in a complex society" in terms of "economic collaboration of governments *and* the liberty to organize national life at will" (Polanyi, 1944: 254). Interestingly enough, he ended his book with an important warning to liberals, who usually

tend to equate the concept of ‘freedom’ with the absence of planning, regulation and control:

As long as [man] is true to his task of creating more abundant freedom for all, he need not fear that either power or planning will turn against him and destroy the freedom he is building by their instrumentality. This is the meaning of freedom in a complex society; it gives us all the certainty that we need (Polanyi, 1944: 254).

Nevertheless, ‘market-friendly’ scholars have kept on insisting that “[planners] create not certainty but uncertainty – for individuals”, as John Chamberlain once wrote in his laudatory foreword to *The Road to Serfdom* (Hayek, 1944: iv). As a matter of fact, in this concise foreword, Chamberlain provides not only a nice epitome of Hayek’s market-oriented philosophy, but also the essential tenets of economic liberalism as opposed to state intervention and planning. Hence, it is all the more useful to copy-and-paste a considerable portion of this foreword:

The shibboleths of our times are expressed in a variety of terms: “full employment”, “planning”, “social security”, “freedom from want” . . . [which] cannot be had unless they come as by-products of a system that releases the free energies of individuals. When “society” and the “good of the whole” and “the greatest good of the greatest number” are made the overmastering touchstones of state action, no individual can plan his own existence. . . . The threat of state “dynamism” results in a vast, usually unconscious fear among all producing interests that still retain conditional freedom of action. And the fear affects the springs of action. Men must try to outguess the government as yesterday they tried to outguess the market. But there is this difference; the market factors obeyed at least relatively objective laws, while governments are subject to a good deal of whim. One can stake one’s future on a judgment that reckons with inventories, market saturation points, the interest rate, the trend curves of buyers’ desires. But how can an individual outguess a government whose aim is to suspend the objective laws of the market whenever and wherever it wishes to do so in the name of “planning”? . . . The alternative to “planning” is the “rule of law”. Hayek is no devotee of laissez faire; he believes in a design for an enterprise system. . . . But the point is that the individual must know, in advance, just how the rules are going to work. He

cannot plan his own business, his own future, even his own family affairs, if the “dynamism” of a central planning authority hangs over his head (Hayek 1944: iii-v, Foreword by John Chamberlain).

The excerpt above summarizes what economic liberalism is all about. First of all, it is utterly against ‘holistic goals’ or ‘common purposes’ or ‘collective actions’ since it rests on the idea of the supremacy of *individual freedom* over social well-being at all costs. Implicit in this conception of ‘freedom’ is an over-emphasis on the restrictive role of political institutions encompassed by the state. Secondly, in the context of the liberal mentality, the state is identified with a “whim” for oppressive central planning as opposed to the “objective laws of the market”. “Rule of law”, which is nowadays also one of the tenets of contemporary ‘governance’ model, is described as a by-product of a plan-free market system. In contradistinction, the state is conceptualized as the enemy of the “rule of law”, the absence of which necessarily implies the destruction of freedoms of choice and action at the level of the individual. Hence, economic liberalism rests upon an alleged dichotomy between the state and the market, which are two incompatible institutions. Whereas the market spontaneously ensures economic and political democracy for individuals, the authority of the state – exercised most manifestly in the form of central planning under socialism – eliminates this beneficial spontaneity.

At this point, Hayek goes as far as claiming that the emergence of fascism and the rise of socialism were the two sides of the same coin: “Few are ready to recognize that the rise of fascism and naziism was not a reaction against the socialist trends of the preceding period but a necessary outcome of those tendencies” (Hayek, 1944: 3-4). Hence, for Hayek, we must revert to socialist Russia in order to comprehend German or Italian fascism! His rationale behind writing *The Road to Serfdom* was to draw attention to the common *totalitarian* features that had then prevailed in Germany and Italy on the one hand and in Soviet Russia on the other (Hayek, 1944: 4-9). As the “shibboleths” of the times called for planning and regulation on the part of the state, Hayek chose to attack the most comprehensive form of planning and regulation – socialism –

by treating it as the father of a terrible infant – fascism. “It was the prevalence of socialist views . . . that Germany had in common with Italy and Russia” (Hayek, 1944: 9).

As such, Hayek’s warning was avowedly directed towards England and the United States when he wrote that “it is Germany whose fate we are in some danger of repeating” (Hayek, 1944: 2). Indeed, Chamberlain in his foreword accentuates the message of the book with the hope that the Anglo-Saxon audience takes it into account: “In some respects Hayek is more ‘English’ than the modern English. . . . It may be that he is also more ‘American’ than the modern Americans. If so, one can only wish for the widest possible United States audience for *The Road to Serfdom*” (Hayek, 1944: v). In this light, it would not be an exaggeration to say that Hayek’s book was intended mainly for the attention of two ‘great powers’; namely England and the United States, between which a change of duty was taking place at the commanding heights of the capitalist world-economy during the Second World War. Hayek must have realized that the ongoing tendency towards planning and regulation at the level of the world-economy could be mitigated by the power of these countries. As such, ideas of central planning and socialism could be duly challenged and kept under control so as to sustain the market logic within capitalism as a world-system. In other words, Hayek may be regarded as one of the first political economists who envisaged something like a Cold War as a prerequisite for the maintenance of the ‘capitalist market’, which would, of course, work directly against Polanyi’s prognosis of a ‘great transformation’. Hence, one had better always recall this major and fundamental aspect of Hayek’s endeavor while reading *The Road to Serfdom*, in which one can unexpectedly encounter some seemingly non-*laissez-faire* arguments, which presumably led Chamberlain to write in the foreword that “Hayek is no devotee of *laissez faire*” (iv).

Like Polanyi, Hayek also detected a “trend toward socialism” at the time when he wrote. However, unlike Polanyi, Hayek interpreted this trend with despair

since he considered the “nineteenth century civilization” as the benevolent culmination of the idea of ‘individualism’ by way of which the Western civilization had evolved as the fulcrum of ‘freedom’ throughout ages. Unfortunately, to Hayek, since at least the late 1910s:

We have progressively abandoned that freedom in economic affairs without which personal and political freedom has never existed in the past. Although we had been warned by some of the great political thinkers of the nineteenth century that . . . socialism means slavery, we have steadily moved in the direction of socialism. . . . We are rapidly abandoning not the views merely of Cobden and Bright, of Adam Smith and Hume, or even of Locke and Milton, but one of the salient characteristics of Western civilization as it has grown from the foundations laid by Christianity and the Greeks and Romans. Not merely nineteenth- and eighteenth-century liberalism, but the basic individualism inherited by us from Erasmus and Montaigne, from Cicero and Tacitus, Pericles and Thucydides, is progressively relinquished (Hayek, 1944: 13).

Thus, Hayek sees the trend towards regulation, planning and socialism as a kind of ‘reverse evolution’. Moreover, he ascribes the emergence of ‘individual freedom’ to the spread of free commerce from the northern Italy city states to the western Europe, “taking root wherever there was no despotic political power to stifle it” (Hayek, 1944: 14-15):

The conscious realization that the spontaneous and uncontrolled efforts of individuals were capable of producing a complex order of economic activities could come only after this development had made some progress. The subsequent elaboration of a consistent argument in favor of economic freedom was the outcome of a free growth of economic activity which had been the undesigned and unforeseen by-product of political freedom (Hayek, 1944: 15).

For Hayek (1944), whereas the road to freedom was opened up by the idea of individualism, the collectivist attitude towards society implied “a complete reversal of [this] trend” and “an entire abandonment of the individualist tradition which has created Western civilization” (20). This change in the attitude towards society aimed at replacing “the impersonal and anonymous

mechanism of the market by collective and ‘conscious’ direction of all social forces to deliberately chosen goals” (21). In this vein, Hayek can be interpreted as the forerunner of the idea of the ‘clash of civilizations’ since he tended to identify the Western civilization with a progressive evolution of political democracy along with a spontaneous market order. Indeed, Hayek’s work gives the impression that the market is not only a democratic institution, but also a Western one. Hence, it would not be surprising if Hayek also wrote that planning and socialism implied a backward, i.e. eastward, evolution. We leave it to the reader to draw the parallel between Hayek and such scholars as Francis Fukuyama and Samuel P. Huntington, who live in the age of ‘governance’. And even though we are aware that it would be a far-reaching comparison to liken Hayek to the neo-conservatives of the 21<sup>st</sup> century, we cannot refrain from quoting the following Hayekian ‘proverb’: ““Western” in this sense was liberalism and democracy, capitalism and individualism, free trade and any form of internationalism or love of peace” (22). It is exactly at these early pages of *The Road to Serfdom* where we feel forced to turn to Polanyi’s analysis of the self-regulating market in order to empirically assess whether Western liberalism actually implied “love of peace” or a “satanic mill”.

Hayek’s interpretation of the “nineteenth century civilization” is indicative of a causality that runs from the spontaneous operation of the market order to the automatic maintenance of peace at national and international levels. Thus, Hayek conceptualizes the spontaneous market order not only as the ‘natural’ source of individual freedom and political democracy, but also as the ‘natural’ generator of peace. Indeed, it is true that “[t]he nineteenth century produced a phenomenon unheard of in the annals of Western civilization, namely, a hundred years’ peace – 1815-1914” (Polanyi, 1944: 5). However, just as “[t]here was nothing natural about *laissez-faire*” (Polanyi, 1944: 139), there was also nothing natural about the hundred years’ peace in Europe from 1815 to 1914. Just as “*laissez-faire* itself was enforced by the state” (Polanyi, 1944: 139), a “pragmatic pacifism” (5) – rather than “love of peace” – formed the basis of the “active peace policy” (7) adopted by the powerful coalition

between the governments and the businesses. The mentality of the nineteenth century could be described in terms of a pragmatic idea of “peaceful business as a universal interest” (7) rather than ‘peace’ in its true meaning – peaceful world society as a universal interest. As such, while the hundred years’ peace was planned, the First World War was not!

For the Western civilization, the nineteenth century started with an unprecedented material success as the result of the Industrial Revolution in juxtaposition to the patriotic influence of the French Revolution. On the one hand, patriotic and nationalistic movements were so prevalent that the nation-states themselves started to constitute a real threat to the solidarity of the Westphalian inter-state system. In the first half of this century, peace was the priority of the “cartel of dynasts and feudalists whose patrimonial positions were threatened by the revolutionary wave of patriotism that was sweeping the Continent”, where “constitutionalism was banned and the Holly Alliance suppressed freedom in the name of peace” (Polanyi, 1944: 6-7). On the other hand, the ‘machine process’ created such a high-speed ‘mode of production’ that there emerged an urgent need to reconstruct a new ‘mode of exchange’ at both the national and international levels. In the second half of the century, thus, peace turned out to be an item of prior interest on the agenda of the “commanding heights” of the world economy. To maintain and augment the material success of the ‘machine process’, a new ‘rule of law’ was to be effectuated in world trade and finance. In turn, this new ‘mode of exchange’ could be maintained at international level only in the absence of great wars among the great powers of world politics. This was the landscape of the second half of the ‘nineteenth century Western civilization’, so beloved of Hayek. In the second half, however, “and again in the name of peace – constitutions were foisted upon turbulent despots by business-minded bankers” (Polanyi, 1944: 6):

[W]hat the Holy Alliance, with its complete unity of thought and purpose, could achieve in Europe only with the help of frequent armed interventions was here accomplished on a world scale by the shadowy entity called the Concert of Europe with the help of a very much less frequent and oppressive use of force. For an

explanation of this amazing feat, we must seek for some undisclosed powerful social instrumentality at work in the new setting, which could play the role of dynasties and episcopacies under the old and make the peace interest effective. This anonymous factor was *haute finance*" (Polanyi, 1944: 9).

In other words, it was the community of 'high finance' or international finance which mainly benefited from and thus strived to maintain peace in the second half of the nineteenth century. Hence, the nineteenth century socio-economic system, "the fount and matrix" of which was the self-regulating market, was established by and maintained through the conscious efforts of the 'high financiers':

[High finance] supplied the instruments for an international peace system, which was worked with the help of the Powers, but which the Powers themselves could neither have established nor maintained. . . . Independent of single governments, even of the most powerful, it was in touch with all; independent of the central banks, even of the Bank of England, it was closely connected with them. There was intimate contact between finance and diplomacy. . . . [T]he secret of the successful maintenance of general peace lay undoubtedly in the position, organization, and techniques of international finance (Polanyi, 1944: 10).

In this connection, "[*h*]aute finance, an institution *sui generis* . . . functioned" not only "as the main link between the political and the economic organization of the world in this period", but also "as a permanent agency of *the most elastic kind*" (Polanyi, 1944: 10, emphasis ours). Here, we encounter two important points that Polanyi emphasizes in the context of his conception of the institution of 'high finance'. First, 'high finance' was hand in hand with the state power in the nineteenth century. For its own 'high economic purposes', it always chose to keep in touch with 'the political'. Moreover, "[t]he influence that *haute finance* exerted on the Powers was . . . effective to the degree to which the governments themselves depended upon its co-operation in more than one direction" (13-14). In this sense, we can speak of *a concerted coalition between the 'high finance' and the state*. The corollary of this

argument is that the self-regulating market system – the new ‘mode of exchange’ required to augment the ‘material success’ of the ‘machine process’ – was also established, maintained and used by ‘high finance’ thanks to its coalition with the state apparatus. As such, both ‘the market’ and ‘the state’ were necessarily subject to the rules of ‘high finance’. Secondly, ‘high finance’ was “a permanent agency of the most elastic kind”. In other words, the essential feature of ‘high finance’ can be singled out as ‘its unlimited flexibility, its capacity for change and *adaptation*’. “The motive of *haute finance* was gain; to attain it, it was necessary to keep in with the governments whose end was power and conquest” (Polanyi, 1944: 11). Therefore, the practices of ‘high financiers’ were characterized by a revealed preference for *non-specialization*. That is to say, ‘high financiers’ did not preoccupy themselves with specific types of financial or economic gains. Their propensity to specialize at non-economic affairs was as high as their proclivity to specialize at economic tasks. As such, ‘high financiers’ were rather different from the bourgeoisie, who confined themselves to occupations at the economic domain of the socio-economic system.

At this point, we should draw the attention of the reader to the fact that the long paragraph above can be regarded as a prelude to the core of our thesis. In synthesizing Polanyian and Braudellian conceptions of ‘the market’ and ‘the state’ so as to superimpose a world-economy level of analysis upon Schumpeter’s conception of capitalism, we will return to and remind the reader of our arguments in the above paragraph. For the time being, it suffices for us to have shown how Polanyi demystified the true nature of the “love of peace” that Hayek attributed to the ‘benevolence’ of his beloved Western civilization. Now, we define our remaining task in this section as submitting the epitome of Polanyi’s *institutional* conception of the nineteenth-century civilization and the dynamics that led to its collapse. Equipped with this epitome, we will be able to conclude this section with a concise evaluation of *The Road to Serfdom*, the message of which accords well with the contemporary liberal economic thought.

In Polanyi's point of view, nineteenth-century civilization possessed a specific institutional mechanism. At national level, the socio-economic system was constituted by the "liberal state" as a political institution, which rested upon the economic institution of the "self-regulating-market". At international level, the hundred years' peace was maintained by the "balance-of-power system" as a political institution, which rested upon the world economy organized around the economic institution of the "international gold standard" (Polanyi, 1944: 3-4).

We interpret Polanyi's institutional conception of the "nineteenth century civilization" as follows: *In the final analysis*, 'the economic' determines 'the political', whereas 'the international' determines 'the national'. Hence, even though "the fount and matrix of the system was the self-regulating market" (Polanyi, 1944: 3), the collapse of the "nineteenth century civilization" was marked most notably by the non-sustainability of the *artificial* 'peace interest', which the "balance-of-power system" could carry out only until 1914. On the one hand, the liberal state was the product of the need to establish the self-regulating market, and the balance-of-power system could be sustained thanks to the international gold standard. In this vein, 'the political' depended on 'the economic'. On the other hand, the self-regulating market at the level of the national economies would lose its reason of existence as soon as the artificial peace interest came to an end at international level. In this vein, 'the national' depended on 'the international'. Hence, only after the First World War broke out, only then the nineteenth century civilization started to collapse. As long as the balance-of-power system could be artificially maintained at international level, the self-regulating market was indispensable at national level for the logic of the nineteenth century civilization to prevail. As soon as the balance-of-power system collapsed utterly due to a world war, then relinquishing the self-regulating market at national level became the unintended consequence. As each and every structure in the system as a whole rested upon the self-regulating market, the vanishing of the need for it implied the end of the

peculiar nineteenth-century civilization – or the collapse of the first ‘market civilization’ in human history, so to speak.

Therefore, we are well inclined to assess Polanyi’s legacy as a case of ‘open system perspective’, which defies pure ‘economic determinism’, and indeed, which necessarily incorporates ‘economic determinism’ into the multifaceted context of a broader institutional framework at the level of world-systems analysis. In this general framework of political economy analysis, which we derive from *The Great Transformation*, the economic organization at national level is both *the cause and the effect* of the political organization at international level. For instance, in the context of the nineteenth-century civilization, the “self-regulating market” and the balance-of-power system could not exist and survive without each other. The absence of the former would mean no specific need for the latter, whereas the absence of the latter would imply the infeasibility of the former. As the international gold standard could not carry further the burden of the vagarious world politics, the First World War broke out in 1914 to put an end to the artificial balance-of-power system, without which the self-regulating market could not operate. In turn, the renouncement of the self-regulating market implied the end of the liberal state, as was experienced in the 1920s. Without the liberal state, the world economy was doomed to collapse, as evidenced by the Great Depression of 1929. At this point, the problem concerning the need for a new balance-of-power system was to be solved by another World War, during which Polanyi wrote *The Great Transformation*. In order to reveal the dynamics behind such collapse of the nineteenth-century civilization, we thus start to submit the epitome of *The Great Transformation*.

The premise of economic liberalism is the idea that individual liberties at the economic domain can be maintained only if the individuals are free to choose how to behave in the market. This premise implies that the market must function on its own as a purely economic institution without any political influence exerted by the state. The liberal idea then postulates that everyone

will be better off since the market process will automatically and efficiently transform individual self-interests into social well-being. The free operation of the price mechanism ensures that goods and services will be produced as much as needed, and factors of production will be channeled into those productive activities where they are utilized as efficiently as possible. In this sense, the economy is conceptualized in terms of a ‘natural order’, which is supervised and coordinated by an ‘invisible hand’, which, in turn, automatically eliminates any need for ‘artificial’ regulation and planning on the part of the state. Hence, economic liberalism envisages the separation of economic and political affairs so that the ‘spontaneous’ rules of the market are not distorted by the man-made dictates of the state. By its very nature, the market is a democratic economic institution, which defies the concentration of economic power at the hands of the privileged few. As the state happens to intervene in the market, individual freedom is disturbed and the egalitarian diffusion of economic power is replaced by the concentration of economic power at the service of those who are favored by the state.

First, for a while, let us presume that the state is totally detached from economic tasks so that the economy is self-coordinated by the pure logic of the ‘objective’ rules of a self-regulating market system – a spontaneous market order. Then, the question is: Can such a ‘spontaneous’ economic order actually propagate the well-being of each and every individual and heighten the level of social welfare? Polanyi’s answer to this question would be a blatant ‘no’. Even if a purely spontaneous market order were established and maintained for a given period of time, the self-regulation process would annihilate the well-being at both the individual and social levels. As a matter of fact, the supposedly ‘objective’ rules of a self-regulating market are inhumane insofar as they dictate the *commodification* of the human-beings themselves, the nature surrounding them, and the means of exchange that they developed to meet their reciprocal needs. Self-regulating markets are like “satanic mills” that disintegrate all the social and cultural cohesion that the survival of any socio-economic system necessitates in the first place. In this respect, “satanic mills”

of the nineteenth century civilization “were heedless of all human needs but one; relentlessly they began to grind society itself into its atoms”, as R. M. Maciver sums up in his foreword to *The Great Transformation* (Polanyi, 1944: x).

Secondly, let us turn to the following question: Is a purely economic system feasible in the long run? In other words: Can ‘the political’ and ‘the economic’ be detached from each other permanently in the context of a socio-economic system? Polanyi’s answer to this question would be an equally blatant ‘no’. And the answer to this question is, in fact, self-evident in the answer to the previous one. The continuity of any society – simple or complex – relies on what may be called ‘social cohesion’ in the first place. The integrity of society and the existence of society are two sides of the same coin: Social disintegration implies the annihilation of society *per se*, and *vice versa*. That is, ‘the social’ cannot be reduced to ‘the economic’. Under normal circumstances, just like the political order, “the economic order is merely a function of the social, in which it is contained” (Polanyi, 1944: 71). By definition and construction, ‘the social’ does not exist without either ‘the economic’ or ‘the political’. To be sure, this argument, on which we will elaborate later, has a very significant implication: As far as the viability of a social order is concerned, neither a ‘purely economic’ nor a ‘purely political’ system is possible. Society survives as long as ‘the economic’ and ‘the political’ remain “embedded”. For instance, “a stark utopia” *per se*, a self-regulating market system “could not exist for any length of time without annihilating the human and natural substance of society” (Polanyi, 1944: 3). Indeed, as the result of his ‘anthropological’ inquiry into “Societies and Economic Systems” as well as into the “Evolution of the Market Pattern” (Polanyi, 1944: 43-67), Polanyi’s conclusion is the exact opposite of Hayek’s conception of the evolution of the free market system:

Regulation and markets, in effect, grew up together. The self-regulating market was unknown; indeed the emergence of the idea of self-regulation was a complete reversal of the trend of development (Polanyi, 1944: 68).

*The Great Transformation* is essentially an impressive critique of the nineteenth-century England, where the idea of a self-regulating market was attempted for the first time in human history. Polanyi singles out this period as the ‘nineteenth century civilization’, the uniqueness of which arises from two peculiarities: First, land, labor and money were treated as tradable commodities, even though they were not commodities at all. Hence, Polanyi argued that the first step in building up a self-regulating market system was the conversion of land, labor and money into ‘fictitious commodities’. Secondly, the functioning of a self-regulating market system required that the fictitious commodities be subject to the spontaneous rules of the market (Polanyi, 1944: 68-76). The ‘flexible’ markets for main factors of production; i.e., land, labor and money, were to be dissociated from state intervention and planning:

Self-regulation implies that all production is for sale on the market and that all incomes derive from such sales. . . . Nothing must be allowed to inhibit the formation of markets, nor must incomes be permitted to be formed otherwise than through sales. . . . Hence there must not only be markets for all elements of industry, but no measure of policy must be countenanced that would influence the action of these markets (Polanyi, 1944: 69).

This was the essence of the broader construct of a ‘self-regulating market system’ – the market as “the only organizing power in the economic sphere” (Polanyi, 1944: 69) – which the *laissez-faire* theorists and ‘practitioners’ strived to establish and maintain in the name of a ‘liberal creed’ (135-162). “Fired by an emotional faith in spontaneity”, the liberal philosophy exhibited “a mystical readiness to accept the social consequences of economic improvement, whatever they might be” (33).

The application of the liberal philosophy to real life entailed a transition from regulated markets to self-regulating markets. For the transition to be duly completed, an institutional “dichotomy” within the fabric of society was indispensable. That is, “[a] self-regulating market demands nothing less than the institutional separation of society into an economic and political sphere” (Polanyi, 1944: 71). By way of this dichotomy, land, labor and money are

subjected to the ‘objective’ rules of the self-regulating market, according to which every element of industry must be sale on the market. However, one must always keep in mind that:

[L]abor and land are no other than the human beings themselves of which every society consists and the natural surroundings in which it exists. To include them in the market mechanism means to subordinate the substance of society itself to the laws of the market. . . . But labor, land, and money are obviously *not* commodities. . . . None of them is produced for sale. The commodity description of labor, land, and money is entirely fictitious. . . . Undoubtedly, labor, land, and money markets *are* essential to a market economy. But no society could stand the effects of such a system of crude fictions even for the shortest stretch of time unless its human and natural substance as well as its business organization was protected against the ravages of this satanic mill (Polanyi, 1944: 71-3).

At this point the impact of Industrial Revolution was decisive in the emergence of the demand for a self-regulating market system. The ‘machine process’ led to the factory system, until the development of which ‘industry’ was merely of secondary importance with respect to the priority of commerce in economic life. With the advance of the factory system, industrial production turned out to be a matter of “long-term investment with corresponding risks”, which would be bearable only if major inputs of production were automatically and continuously supplied. As such, land, labor and money were made available for purchases on the market so that industrial production could be maintained (Polanyi, 1944: 74-5). Therefore, the development of the factory system within a commercial society had two important consequences: i) “Industrial production ceased to be an accessory of commerce”, and ii) “All along the line, human society had become an accessory of the economic system” (75). That is to say, before the Industrial Revolution, commerce and finance were predominant with respect to production. Long-distance trade, versatile communication networks and large-scale financial activities were the forms of economic activity that yielded the highest gains. As such, it was the commercial and financial community which occupied the commanding heights

of the economy at world level. After the Industrial Revolution, however, production became as profitable as trade and finance. In this connection, we have every reason to ask the following question: While the substance of society was subject to a drastic change following the application of the ‘machine process’ within the context of a self-regulating market system, did a similar change also take place at the commanding heights of the world-economy? Were the commanding heights of the world-economy occupied by different types of ‘economic agents’ before and after the Industrial Revolution? Were commercial and financial circles replaced by ‘productive’ circles as the commanders of the new economy? We postpone the answers to these questions to the next chapter, which we will end by discussing Braudel’s conception of capitalism. For the time being, what we can say for sure is that the commanding heights of the world-economy during the Industrial Revolution were utterly alien to the type of production, the way for which was rapidly paved by the factory system.

An honest analysis of the post-Industrial Revolution period reveals that England exhibited an unprecedented ‘material success’, but always at the expense of society. There always existed simultaneity between economic improvements and social dislocations. The more the ordinary people in the form of ‘labor’ were subjected to the ‘objective’ laws of supply and demand, the greater was the rate of economic improvements. And the faster the economic change took place, the more the people were dislocated and the more their natural surroundings were taken away from them. “If the rate of dislocation is too great, the community must succumb in the process” (Polanyi, 1944: 76). In this sense, the self-regulating market is simultaneously self-defeating. This spontaneous economic system was bound to become the ‘victim of its success’. Its material achievements necessarily implied its failure in harboring the people, upon whose ‘free supply’ it relied. As such, the more successfully the market regulated itself, the more it broke society into pieces, and the faster approaching was its inevitable collapse. “Indeed, human society would have been annihilated but for protective countermoves which blunted

the action of this self-destructive mechanism" (76). In order to survive, man was to reject the commodity fiction, to which he was so abruptly and relentlessly subjected:

Social history in the nineteenth century was thus the result of a double movement: the extension of the market organization in respect to genuine commodities was accompanied by its restriction in respect to fictitious ones. . . . Society protected itself against the perils inherent in a self-regulating market system (Polanyi, 1944: 76).

At this point, we should spend some space to return to and elaborate on our thesis. The Polanyian concept of double movement accords with our classification of economic theory-and-policy into two broadly defined domains as 'orthodox economics' and 'heterodox economics'. In the first pages of the Introduction to this work, we declared that we identify the orthodoxy with its market-oriented solutions as opposed to the state-led policies. In this seemingly far-reaching classification, Polanyi's double movement was in our mind so that we did not hesitate to claim that:

[O]ne of our major purposes is to emphasize an ongoing bifurcation within history of economic thought. Basically two types of economists have come to occupy academic and policy-making organizations: The proponents of state-led policies *versus* the proponents of market-oriented solutions. This is our fundamental criterion in our above-mentioned and presumably far-reaching classification.

The following quotation from *The Great Transformation* can justify our case:

[Double movement] can be personified as the action of two organizing principles in society, each of them setting itself specific institutional aims, having the support of definite social forces and using its own distinctive methods. The one was the principle of economic liberalism, aiming at the establishment of a self-regulating market, relying on the support of the trading classes, and using largely *laissez-faire* and free trade as its methods; the other was the principle of social protection aiming at the conservation of man and nature as well as productive organization, relying on the varying support of those most immediately affected by the deleterious action of the market – primarily but not exclusively, the working and

the landed classes – and using protective legislation, restrictive associations, and other instruments of intervention as its methods (Polanyi, 1944: 132).

Our use of the terms ‘orthodox’ and ‘heterodox’ – respectively as the proponents of ‘economic liberalism’ and ‘social protection’ – must be clearer now. This bifurcation in economic thought and practice has been going on at least since the nineteenth century. Indeed, it is this bifurcation *per se*, which is also the source of what we termed ‘Hayek-Polanyi polarity’ in the pages that precede. In this regard, our thesis is that the orthodoxy has been nowadays redefining and reconstructing itself so radically that this olden “double movement” may come to an end. Until recently, the liberal and orthodox side of the movement confined itself to the framework of what may be called “more market – less state”. As long as the orthodoxy defined itself *vis-à-vis* the state, one of the major functions of which is “social protection”, the state remained as it is, even though its ‘size’ – or ‘quantity’, so to speak – has varied depending on the existing milieu. However, the new, liberal and orthodox ‘model of governance’, we insist, is an attempt to change the ‘fabric’ – or ‘quality’ – of the state. So, the indispensable and the most significant apparatus of social protection is being dismantled nowadays. In other words, the nineteenth century people were luckier than us in that they had ‘the state’ as we know it, which they could use for social protection when the vagaries of the market tended to completely dislocate and degrade them. If the contemporary governance model somehow succeeds, the olden phenomenon of double movement may reduce to the case of a single path, in which case ‘economic liberalism’ may remain ‘the only alternative’. With the practical annihilation of the conventional state, ‘reclaiming development’ may well become a stark utopia. To escape this fate, we should grasp well the genesis and essence of liberalism.

We should also make another point clear in passing. Our thesis aims at opening a new floor of discussion concerning the likelihood of the collapse of capitalism. As many scholars have been doing since more than two centuries,

we also seek out to identify capitalism's inherent contradictions, which can one day put an end to it. In this effort, we choose to perceive the *decisive* contradiction of capitalism in terms of its relation to the market and the state. That is, capitalism as a socio-economic system has an inherent tendency to generate a disharmony between its major 'economic' and 'political' institutions, which are otherwise *not* mutually exclusive. Put differently, our contention is that capitalism constantly reproduces an 'artificial dichotomy' between the market and the state. We consider this a fundamental contradiction on the part of capitalism since it cannot dispense with either the market or the state. This capitalistic antagonism between 'the economic' and 'the political' can be as decisive as the conflict between social classes in determining the end of capitalism as a socio-economic system. It is in this vein that we choose to focus upon the contrived clash of two major institutions. Our thesis is all the more considerable in the face of the contemporary 'governance model'. This model bears the earmarks of an *ultimate* effort directed towards a decisive solution of the 'market-state dichotomy' once-more-and-for-all. However, pure market capitalism without the state is the starker of the utopias. As the substance of the state is the new target of attack, 'governance' can be considered an attempt to dismantle one of the two *indispensable* instruments of capitalism. As such, contemporary capitalists may be unconsciously destroying not only the state but also capitalism *per se*.<sup>62</sup> Hence, we believe that it is a good idea to analyze the 'governance model' in terms of the 'embeddedness' of 'the economic' and 'the political' rather than preoccupy ourselves merely with the labor-capital conflict. The reader should note that our choice of units of analysis is not a denial of the significance of labor-capital relations. Indeed, conflict of classes is the very source of the capitalistic operation of the market

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<sup>62</sup> In this connection, one may well ask: "Are capitalists so stupid as to destroy capitalism unknowingly?" Here, the point is not about the stupidity or cleverness of the capitalists. As we discussed in the end of our preceding chapter on 'governance'; we observe, on the part of the capitalists, *insistent counter-attempts* that defy the 'secular trend' of capitalism: 'Good governance' is ordained as a global project, which aims at 'artificially' protracting the normal life-cycle of the latest financial expansion. Of course, capitalists of the previous ages might have also tried to stretch out financial expansion. But the distinctiveness of contemporary capitalists is that they are cutting the 'left hand of the state' once-and-for-all; *i.e.* they are *not* merely putting a temporary stop to using it. In other words, capitalists of our times have unprecedentedly become so 'insatiable' that their greed, rather than stupidity, will destroy capitalism eventually.

and the state. However, we believe that social classes alone remain an inadequate explanatory variable in revealing the contemporary dynamics of capitalism. Hence, our emphasis on the institutional dynamics of capitalism should be considered an attempt to enrich and complement the class-based analysis of capitalism in the age of ‘governance’. It seems to us that such a framework carries a higher potential for serving the anti-capitalist efforts to channel ‘governance’ in the direction of ‘unintended’ yet ‘socialist’ consequences. With this in mind, we now return to Polanyi’s analysis of the “Birth of the Liberal Creed”.

Polanyi’s conception of the ‘self-regulating market system’ is disclosed most assuredly in his discussion of the ‘liberal creed’ (Polanyi, 1944: 135-162). First, he exposes the policy of *laissez-faire* as maturing in terms of three well-known tenets as of the 1820s: i) “labor should find its price on the market”, ii) “the creation of money should be subject to an automatic mechanism”, and iii) “goods should be free to flow from country to country without hindrance or preference” (135). As such, *laissez-faire* requires the establishment of a competitive labor market, an automatic gold standard, and international free trade. At this point, Polanyi warns that these three classical tenets “of the dogma of *laissez-faire* are but incompletely understood as long as they are viewed separately” (138). Each of these tenets is an integral part of *laissez-faire*. In the absence of any one of these tenets, *laissez-faire* would be inconceivable. Therefore, *laissez-faire* was a “stupendous mechanism”, the establishment and maintenance of which could be ensured by “nothing less than a self-regulating market on a world scale” (138):

Unless the price of labor was dependent on the cheapest grain available, there was no guarantee that the unprotected industries would not succumb in the grip of the voluntarily accepted task-master, gold. The expansion of the market system in the nineteenth century was synonymous with the simultaneous spreading of international free trade, competitive labor market, and gold standard; they belonged together. No wonder that economic liberalism turned into a secular religion once the great perils of this venture were evident” (Polanyi, 1944: 138-9).

In this regard, we should underscore the indispensability of *human design* – as opposed to *spontaneity* – insofar as Polanyi's conception of the 'self-regulating market system' is concerned. Such a "stupendous mechanism" that formed a complex network at world scale was, to be sure, designed piecemeal beforehand and constructed consciously. In sharp contrast with the variants of liberal economic thought including the Austrian school of economics as well as contemporary pro-governance scholars, Polanyi emphasized consistently the *impossibility* of 'spontaneous' and 'pure' *laissez-faire*:

There was nothing natural about *laissez-faire*; free markets could never have come into being merely by allowing things to take their course. . . . [L]*aissez-faire* itself was enforced by the state. . . . The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism. . . . Administrators had to be constantly on the watch to ensure the free working of the system. Thus even those who wished most ardently to free the state from all unnecessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with the new powers, organs, and instruments required for the establishment of *laissez-faire*" (Polanyi, 1944: 139-41).

Polanyi's emphasis on the *indispensability of human design* and the *role of the state* in establishing and maintaining a self-regulating market system is crucial. It is an empirical refutation of a liberal myth, according to which the market system is the 'natural' outcome of the complex interaction of individual self-interests. The axiomatic foundation of economic liberalism is the idea that if an institution comes into being spontaneously without any common will directed towards its establishment, then that institution can function and evolve most efficiently by way of spontaneity, i.e., non-intervention. Interestingly enough, this empirically refutable keynote of economic liberalism has achieved to survive throughout the history of economic theory and practice: from the *ordre naturel* of the Physiocrats – the first school of economic thought – to the 'invisible hand' of Adam Smith – the first system-builder in economic phenomena; from the 'organic institutions' of Carl Menger to the 'spontaneous

order' of Hayek; from the 'deregulation' of neoliberalism to the 'good governance' of the World Bank.

In this regard, the reason why we consider *The Great Transformation* as the 'antidote' of economic liberalism is all the more discernible given the following quotation:

While *laissez-faire* economy was the product of deliberate state action, subsequent restrictions on *laissez-faire* started in a spontaneous way. *Laissez-faire* was planned; planning was not (Polanyi, 1944: 141).

In Polanyi's analysis, on the one hand, the self-regulating market system is the reflection of the common purpose of particular economic and political agents; that is to say, it is man-made and thus non-spontaneous. On the other hand, Polanyi identifies the concept of 'planning' in the context of the double movement. For Polanyi, 'planning' is a spontaneous and normal consequence of the *contrived* 'commodity fiction' exacted by the self-regulation of the market. Hence, 'planning' and social protection mean the same thing in the face of the vagaries of the self-regulating market system. As a matter of fact, the believers of the 'liberal creed' also admit the idea of a double movement, which is the product of the self-regulating market system. However, their perception of this two-sided skirmish remains fundamentally flawed with respect to the historically-conscious evidence provided by Polanyi. As we discussed briefly in the previous paragraph, economic liberalism involves a creed in the spontaneity of the emergence and evolution of the market system. Nonetheless, liberals consider the 'reactions' to the operation of the self-regulating market as a kind of man-made, volitional and planned 'conspiracy', which, by construction, aims directly at eliminating *laissez-faire*. For instance, protectionist measures, such as factory laws and customs tariffs, as well as the active colonial policy leading to imperialist rivalries were submitted by the liberals as the excuses for the ultimate failure of the gold standard (Polanyi, 1944: 211-215). These excuses in the form of "protectionist conspiracy" and "imperialist craze" reveal that liberals lack any sense regarding the phenomenon of social protection:

Liberal writers . . . offer an account of the double movement substantially similar to our own, but they put an entirely different interpretation on it. While in our view the concept of a self-regulating market was utopian, and its progress was stopped by the realistic self-protection of society, in their view all protectionism was a mistake due to impatience, greed and shortsightedness, but for which the market would have resolved its difficulties (Polanyi, 1944: 142-3).

These sentences demonstrate not only that Polanyi was a self-proclaimed anti-liberal, but also that there exists a prominent similarity between the liberals of Polanyi's time and the architects of the contemporary 'governance model'. It seems that liberals have been and will be never tired of repeating that *laissez-faire* would result in success if it were not interfered with in the name of 'protection':

[Apologists of economic liberalism] are repeating in endless variations that but for the policies advocated by its critics, liberalism would have delivered the goods; that not the competitive system and the self-regulating market, but interference with that system and interventions with that market are responsible for our ills" (Polanyi, 1944: 143).

In this liberal motto, we identify nothing less than *the rationale* behind the emergence of the 'governance model'. When the neoliberal recipe of the 1980s failed so as to yield major crises across the globe in the 1990s, contemporary liberals have continued to put the blame on the state: The state has a tendency for generating anti-market policies, interventionist protective measures, inefficient economic outcomes, etc. The idea of 'good governance' – the need for 'efficient', market-like public institutions – arose basically from this alleged dichotomy between the market and the state: If the state worked well – like a market – then neoliberal policies would not fail. As such, not only the liberals whom Polanyi opposed, but also the pro-governance ideologists of our times have failed to understand one important thing: As long as the self-regulating market tends to dislocate and degrade large segments of society, the resulting social reaction and the demand for 'protection' are nothing but *natural* reflections of the 'instinct of survival' on the part of 'the social'.

Insofar as the liberals fail to perceive the destructive element in the nature of the self-regulating market system, it seems that they will keep on producing conspiracy theories after every economic crisis and every social catastrophe.

Equipped with this Polanyi-based demystification of the liberal creed, we can conclude this section by a concise discussion of whether a spontaneous and purely economic socio-economic system is viable. At this point, let us recall the fundamental rationale behind the case for economic liberalism: There exists a ‘natural order’ in the economy, which is spontaneously constituted by the ‘invisible hand’ of the ‘price mechanism’. In the absence of any interventions to this self-coordinating process, the most efficient outcomes emerge as by-products of the interaction of individual self-interests. As such, individual economic agents must be free to run after their economic self-interests so that their ‘purposive’ economic efforts can be automatically transformed into ‘individually unintended’ yet ‘socially beneficial’ consequences. Therefore, the state as the envelope of political institutions must be strictly refined from any economic functions. Its role should be confined to forming a convenient, lawful and orderly ground on which the ‘objective rules’ of the market can flourish. In other words, the state should act upon the economic domain with no economic ends in mind so as to ensure the competitive dynamism of the spontaneous market order. In any case, ‘the economic’ should be allowed to operate by means of a ‘purely competitive logic’, which is necessarily incompatible with the counter-option of ‘economic planning’. ‘Planning instead of competition’ is likely to yield disastrous social consequences, such as opening up ‘the road to serfdom’. Moreover, a mixture of ‘economic planning’ and competition would produce even worse outcomes. Nonetheless, ‘non-economic planning’, i.e., ‘planning that supports competition’ is welcome:

Both competition and central direction become poor and inefficient tools if they are incomplete; they are alternative principles used to solve the same problem, and a mixture of the two means that neither will really work and the result will be worse than if either system had been consistently relied upon. Or, to express it differently,

planning and competition can be combined only by *planning for competition* but not by *planning against competition* (Hayek, 1944: 42, emphases ours).

This Hayekian-liberal idea is worth considering in some detail. At first sight, the idea of ‘planning for competition’ seems to involve a non-*laissez-faire* argument, or an acceptance of the need for ‘non-economic impurities’ within a socio-economic system. Planning that is undertaken with the purpose of supplementing competition sounds like a call for the (re-)construction of the ‘embeddedness’ of ‘the economic’ and ‘the political’. That is to say, liberals like Hayek, at times, exhibit a sense of cautiousness about the indispensable role to be played by the state: It should protect the self-regulating market so that its ‘competitive’ rules can be maintained. In other words, the maintenance of a self-regulating market system also needs ‘state protection’. Hayek-like liberals do not abstain from calling for ‘state intervention’ especially when the ‘fate’ of the market is at stake. Hence, the typical liberal may uncompromisingly adhere to the idea that ‘spontaneity’ is always superior to ‘human design’ insofar as the efficiency of institutions is concerned. Nonetheless, and at the same time, the same liberal may call for human design so that spontaneity can be sustained. This is all the more ironical in the case of Hayek, who devoted all his life to demonstrate that efficient human design is impossible. As we argued elsewhere (Özçelik, 2000), while Hayek consistently adhered to the idea that a democratic system is not plausible without the market order, he did not fail to observe, in his later works, that democratic competition by way of representative democracy was undermining the socio-economic system. He singled out the welfare projects and the enlargement of state budgets – the ‘democratic’ by-products of the ‘spontaneous’ need for protection against the self-regulation of the market – as the reason behind the weakening of the system. Once he detected a self-destructive element within the tripartite ‘spontaneous’ order encompassed by the institutions of capitalism, market and democracy, and “not willing to accept this fate, [Hayek] called for a change of public attitudes and for institutional reform strategies in order to reconstruct a liberal order” (Prisching, 1989: 57). To be sure, this was a matter

of inconsistency on Hayek's part (Ioannides, 1992: 146-50) since he was appealing for conscious and collective re-design of institutions through constitutional reform (Hayek, 1982, vol. 3), but just "[a]fter having proved the impossibility of institutional design" (Prisching, 1989: 57).

Therefore, the Hayekian idea of 'planning for competition' has nothing to do with the construction of the 'embeddedness' of 'the economic' and 'the political', even though it evokes such a constructive effort at first sight. In contradistinction, this idea entails a call for the augmented enforcement of the rules of the market by having recourse to the 'protective' and 'constructive' capacity of the state:

Strictly, economic liberalism is the organizing principle of a society in which industry is based on the institution of a self-regulating market. True, once such a system is approximately achieved, less intervention of one type is needed. However, this is far from saying that market system and intervention are mutually exclusive terms. For as long as that system is not established, economic liberals must and will unhesitatingly call for the intervention of the state in order to establish it, and once established, in order to maintain it. The economic liberal can, therefore, without any inconsistency call upon the state to use the force of law; he can even appeal to the violent forces of civil war to set up the preconditions of a self-regulating market (Polanyi, 1944: 149).

In this light, what we understand from 'planning for competition' is a liberal insistence on the separation of 'the political' and 'the economic'. That is, the state must be strictly defined as a *non-economic* institution as opposed to the purely economic institution of the market. In this liberal vein, 'planning' *per se* becomes a *laissez-faire* policy. Hence, the typical liberal is prone to perceive the two 'embedded' functionaries of 'the social' in terms of a 'market-state dichotomy'. He utterly ignores the question of how and why this 'natural embeddedness' is disturbed in the first place. He never wonders how the self-regulating market system has regularly come to the 'emergency room', where a 'nurse state' is expected to heal its injuries with tenderness. He fails to understand the reason why the purely economic logic of 'competitive'

spontaneity is self-defeating. These defective aspects of economic liberalism arise from its ‘ignorance’ of the true nature of institutions. It is clear that the liberal mentality sees nothing detrimental in the creation of ‘fictitious commodities’ for the establishment and maintenance of a self-regulating market system. In juxtaposition to this heedless insensitivity in the name of advocating the ‘objective’ rules of the market, Hayek-like liberals do not refrain to propose the creation of ‘fictitious institutions’ – e.g., ‘planning for competition’ – with the ambition of resurrecting the liberal order.

Interestingly enough, the contemporary model of economic governance also gives the first impression that it strives to ensure a functional harmony between the state and the market. In response to the social dislocation and degeneration caused by the neoliberal policies of the Washington Consensus, the governance model seems to accept the need for reconstructing the ‘embeddedness’ between ‘the economic’ and ‘the political’. As such, this liberal model, too, envisages a role to be played by the state. But, as its conventional institutional mechanisms are ‘inefficient’, the state must be re-shaped in accordance with the competitive logic of the market. Here again, we encounter a similar attempt, but this time, to create ‘fictitious institutions’ – market-like state structures – to recover the neoliberal order which is at stake. Once again, ‘planning’ shows up as a *laissez-faire* policy in this appeal for ‘governance’. True, once the liberal order naturally tends towards self-destruction, state protection is inevitably needed. And this is all the more understandable at a time when the contemporary governance model seeks out to harmonize the functioning of the state and the market by means of a ‘plan’ to convert the state into a market-like institution. But the big problem is that if the ‘powerful’ instrument of ‘planning’ is confined to and directed at *perennial* protection of the self-regulating market system, then the ‘social self-protection’ component of the double movement is most likely to lose its supportive institutions along an *irreversibly* liberal path. It is for this reason that we feel obliged to shed suspicion on the governance model, which bears the earmarks of an *ultimate* effort directed towards a decisive dictation of the ‘market-state dichotomy’.

once-more-and-for-all. If it succeeds, the governance model – or ‘planning for competition’ in the Hayekian sense of the phrase – has the dangerous potential of routinizing the dislocation and degradation resulting from market spontaneity in the form of *permanent* occurrences of every day life.

We insist that if the economy is divorced from political institutions, market starts to subjugate society. ‘The social’ can exist and survive only by means of a *true* ‘symbiosis’ between *genuine* – and *not* fictitious – political institutions encompassed by the state and ‘regulated economic processes’ encompassed by the *true* market. For this to happen, the economy must be *embedded* in social life, and its destructive dynamism should be mitigated by restricting its purely spontaneous logic. At both national and international levels, such an ‘embeddedness’ is to be consciously constructed and collectively protected against ‘economic purification’ of the socio-economic system so as to avoid the ‘atomization’ of ‘the social’.

We must never forget that “[h]istory teaches nothing, but only punishes for not learning its lessons”, as the late Russian medievalist Vassily Kliuchesky once warned (cited in Heilbroner, 1993: 13). In the face of the governance model, ‘there is no alternative’ in front of humanity but to learn the lessons of history. The “latent threat to society”, of which Polanyi makes mention in the following quotation, was not only the obvious effect of the self-regulating market system, but also the deep-seated cause of two world wars that accompanied the collapse of the “nineteenth century civilization”:

The danger points were given by the main directions of the attack. The competitive labor market hit the bearer of labor power, namely, man. International free trade was primarily a threat to the largest industry dependent upon nature, namely, agriculture. The gold standard imperiled productive organizations depending for their functioning on the relative movement of prices. In each of these fields markets were developed, which implied a latent threat to society in some vital aspects of its existence (Polanyi, 1944: 162).

## CHAPTER 5

### AN INSTITUTIONALIST INTERNATIONAL POLITICAL ECONOMY (IIPE) PERSPECTIVE VIS-À-VIS THE GLOBAL ‘GOVERNANCE’ MODEL: FURTHER ELABORATION

#### 5.1. ‘Principle of Dominance’ and ‘Principle of Impurity’ as the Institutional Link between Polanyi and Schumpeter

By now, it must be clear that ‘the economic’ and ‘the political’ constitute the *integral* components of ‘the social’ in Polanyi’s framework of analysis. In other words, Polanyi’s conception of social systems involves the idea of the complementarity between ‘the economic’ and ‘the political’. The existence and survival of social systems require that ‘the market’ and ‘the state’ be ‘embedded’ in social life. That is to say, neither ‘the economic’ nor ‘the political’ should reign supreme over ‘the social’ so that the ‘natural’ integrity of the social system can be maintained. On the one hand, the economic logic of ‘the market’ rests upon *individual self-interests* and yields a *dynamic* ‘mode of spontaneity’. On the other hand, the political logic of ‘the state’ rests upon collective will and action, and yields a *slow-moving* ‘mode of planning’. As such, the logics of ‘the market’ and ‘the state’ necessarily run counter to each other. However, this seeming *disharmony* between ‘dynamic spontaneity’ and ‘slack planning’ is a prerequisite for a social system to function harmoniously. Let us dub this aspect of the social systems as ‘harmony of disharmony’, which we derive from Polanyi’s analysis.

The ‘harmony of disharmony’ implies that the logic of neither the market nor the state should be ‘purified’ so that ‘the social’ is not dismantled. If the logic of the market reigns supreme alone, dynamic spontaneity disintegrates the indispensable structures of socio-political life. If the logic of the state reigns supreme alone, sluggish planning destroys the indispensable processes of socio-economic life. In both cases, the social system as a whole is bound to collapse eventually. The market is too dynamic and the state is too slow-moving for social life to continue along with the separated logics of these institutions. The social system will eventually come to an end, if the over-dynamism of the market is not mitigated by the political intervention of the state, or if the sluggishness of the state is not stimulated by the economic functioning of the market. The ‘nature’ of social systems does not comply with a *purely* economic or political logic. ‘The social’ is essentially an *impure* combination of ‘the economic’ and ‘the political’. And, ‘*the market*’ is a “*neutral container*” *insofar as ‘the social’ is constructed as an impure combination as such*. Within the context of social systems, ‘harmony of disharmony’ and ‘indispensability of impurity’ are thus two ways of mentioning the same thing.

In this regard, what the ‘nineteenth century civilization’ attempted was to establish and maintain a *purely* economic system within – indeed, *against* – the broader social system. However, this century-long attempt was no more than a “stark utopia” on the part of its proponents since it relied on the false premise that ‘the social’ can be reduced to ‘the economic’. The logic of the self-regulating market required that the cohesive elements of ‘the social’ – land, labor and money – be detached from their social nest and converted into ‘economic goods’ to be bought and sold in accordance with the dynamic and spontaneous logic of the market. To the extent that the maintenance of such a purely economic system entailed the separation of political institutions from economic processes, the system was bound to collapse. Even though it created material success in purely economic terms, the unfettered dynamism of the market incessantly destroyed the *institutional impurity* of the social system.

From this Polanyian point of view, we can regard the operation of the self-regulating market system as ‘the victim of its own economic success’: While economic purities were being created, political impurities were being destroyed. In other words, as spontaneity continued to operate on pure market logic, the system accelerated in the direction of higher and higher economic purification. As such, the system paved the way for its self-destruction insofar as it achieved economic success. Therefore, we can single out the distinctive characteristic of the nineteenth century civilization as an omni-present process between the ‘creation of economic purities’ (*i.e.*, construction and maintenance of ‘flexible’ markets for fictitious commodities) and ‘destruction of political impurities’ (*i.e.*, prevention of state intervention in the economic domain through *laissez-faire*).

These simultaneous processes of ‘creation’ and ‘destruction’ within the context of the nineteenth century civilization constituted a ‘pure’ threat directed towards the ‘embeddedness’ of the economic and the political components of the social system. In this light, the ensuing double movement can be perceived in terms of two opposite social forces: i) a *systemic* attempt to purify the system and, ii) an *anti-systemic* movement to avoid system-wide purification. The first of these movements destroyed the ‘harmony of disharmony’ by converting it into ‘pure disharmony’. The second movement then strived to re-create the ‘harmony of disharmony’ by means of socially protective measures taken against pure dis-harmonization. Eventually, the collapse of the system came out as the long-run unintended outcome of the clash of these movements towards ‘economic purification’ and ‘political impurification’.

At this point, we would like to remind the reader that we started constructing our IIPE-perspective by means of what we dubbed the *Hayek-Polanyi polarity*. This polarity arises from their contrasting conceptions of the institution of market. Now, we have arrived at a stage where we can proceed with what may be called the *Polanyi-Schumpeter rapprochement*. Our above-discussed re-consideration of the Polanyian concept of the double movement enables us to

detect a strong ‘institutional’ link between Polanyi’s analysis of the self-regulating market and Schumpeter’s analysis of capitalism. Indeed, in the rest of this section, we will reveal two implicit principles upon which both Polanyi and Schumpeter relied in their social-scientific analyses: ‘Principle of dominance’ and ‘principle of impurity’. We will elaborate on these social-scientific principles as developed by Geoffrey Hodgson in his contributions to the institutionalist theory of institutions. In the end, we will have demonstrated that the global governance model is bound to fail eventually since it aims at establishing the full-dominance of ‘the market’ over ‘the state’, and thereby destroys the ‘necessary political impurities’ without which the existing social system cannot survive. As such, the global governance model may well lead to the end of capitalism as a social system, just as in the manner Schumpeter once predicted. However, in order to reach this grand conclusion, we must first examine the cornerstones of the *Polanyi-Schumpeter rapprochement* in the light of Original Institutional Economics.

Once individual tastes and preferences as well as technology are taken to be exogenous or given to the economic system, there remains no need to bother about their formation. But, if they are treated as the part of the system as endogenous variables, they turn out to be crucial phenomena to be explained by economists. In this regard, to Hodgson (1988: 13), a truly institutionalist or evolutionary approach (as markedly distinguished from the neoclassical theory, Austrian School and some of the behavioralist and Keynesian streams) is unique in that it treats neither preferences nor technology as exogenous or given to the system. This social-scientific approach, which incorporates “the determination of technology into the system” and considers “the factors moulding or affecting the tastes and preferences of the individual”, is called the *open system perspective*. We should underscore that the ‘open system perspective’ is not only the major tenet of institutional economic thought, but also quite an old opposition to classical liberalism. As opposed to the “autonomous and elemental” conception of ‘the individual’ in liberal ideology, the open system perspective treats ‘the individual’ as *a social being*, which is

influenced by his/her social milieu (Hodgson, 1988: 16). Consequently, the open system perspective involves a kind of holistic stance in addition to the individualistic approach of the liberal ideology.

In their *pure* forms, methodological individualism and holism are mutually exclusive opposites. The former is broadly definable as the idea that individual parts constitute and determine the social whole; whereas the latter is the assertion that social whole determines the individual parts. In other words, pure methodological individualism is a ‘composite’ method whereby (purposeful) individual action is conceptualized as the cause of social phenomena, and not *vice versa*. The reverse of this strict causality holds in the case of pure methodological holism. Both of these approaches entail a *one-sided causality*, which runs from ‘the individual’ to ‘the social’ in individualism and from ‘the social’ to ‘the individual’ in holism. The best way to grasp the difference between these contradistinctive methodologies is to visualize ‘the social’ in terms of their conception of ‘institutions’.

In the first place, we must underline that ‘the social’ implies an ‘institution’, which is essentially a *social* structure regardless of its political, economic, cultural, conceptual or physical nature. An institution is necessarily a *social phenomenon* irrespectively of the particular domain of life to which it pertains. Hence, conception of an institution is essentially the conception of a social structure. This simple yet important ‘rule of thumb’ has crucial implications. A purely individualistic conception of ‘the social’ reduces to the claim that institutions are a function of ‘exogenous’ individual action, whereas a purely holistic perspective reduces to the claim that individual action is a function of ‘exogenous’ institutions. In other words, the above-discussed one-sided causality applies to the conception of institutions within the context of these opposing methodological approaches. And, such a one-sided causality by no means complies with the open system perspective.

The essence of an open system perspective is mutual and cumulative causation. In the conception of institutions, the open system perspective can be interpreted as follows, where IS stands for ‘institutional setting’, and IA for ‘individual actions’:

$$\dots IA_1 \rightarrow IS_1 \rightarrow IA_2 \rightarrow IS_2 \rightarrow IA_3 \rightarrow IS_3 \dots$$

A particular institutional setting generates a particular set of individual actions, which, in turn, yield a new institutional setting, which, in turn, generates a new set of individual actions, and so on. At this point, we had better allocate some space to discuss the ‘open system perspective’ in relation to the origins of institutional economic thought. Despite their considerable differences in perceiving the science of economics, two figures are generally agreed to be the co-founders of Institutional Economics: Thorstein Veblen and John R. Commons. Now, we will briefly submit the institutional legacies of Veblen and Commons in terms of their adoption of the ‘open system perspective’.

Geoffrey Hodgson’s (1988) *Modern Institutional Economics* owes its hard core to Veblen’s conception of ‘the individual’ and ‘the institutional’. Veblen treats the individual as a social, indeed a cultural, phenomenon rather than an abstract being. How the individual behaves and acts can be best understood in terms of the socio-cultural context. There is a mutual and cumulative causation between *what the individual does* and *the evolution of institutions*. This flux arises primarily from individual’s “coherent structure of propensities and habits which seeks realisation and expression in an unfolding activity” (Veblen, 1963 [1898]: 52). Human desires or pain-pleasure assessments in the form of individual tastes and preferences – ‘purposeful’ individual behaviors, so to speak – are, of course, the sources of institutions. Yet, tastes and preferences are by no means *given* or *exogenous*. They are not alone responsible for the entire process of the formation of institutions; they are reflections of the *status quo* within which the individual survives. As such, individual tastes and preferences are inevitably:

the outcome of his antecedents and his life up to the point at which he stands. They are the products of his hereditary

traits and his past experience, cumulatively wrought out under a given body of traditions, conventionalities, and material circumstances; and they afford the point of departure for the next step in the process. . . . The economic life history of the individual is a cumulative process of adaptation of means to ends that cumulatively change as the process goes on, both the agent and his environment being at any point the outcome of the last process. His methods of life to-day are enforced upon him by his habits of life carried over from yesterday and by the circumstances left as the mechanical residue of the life of yesterday (Veblen, 1963 [1898]: 52-3).

At this point, the *status quo*, i.e., time- and space-specific methods of livelihood characterized by the existing material and technological conditions, give rise to and shape particular ways of thinking and doing things, which comprise common values, beliefs and technological knowledge. Those ways of thinking and doing things, in turn, evolve into settled habits and patterns of thought and action. At the social level, those habits and patterns yield ‘crystallization’ in terms of *institutionalized* social customs, conventions and norms; which, in their turn, *structure* and *repress* individual aims, desires and actions (Rutherford, 1994: 94). Those *structuring* and *repressing* widespread social habits are ‘institutions’ in Veblen’s parlance of the term.

Veblen's conception of institutions starts with time- and space-specific methods of livelihood and arrives at institutions that structure and repress individuals within society. Hence, one of the most prominent aspects of Veblen's analysis of institutions is his emphasis on the existence of individual action within the context of surrounding institutions. To Veblen, individual aims, desires and actions are an indispensable component of scientific inquiry (Rutherford, 1994: 38). In this sense, entirety of Veblen's analysis of institutions is suggestive of a two-sided connection between social institutions and individual actions, as manifest in his conception of institutions as “settled habits of thought common to the generality of men” (Hodgson, 1988: 10). Individual action is moulded and influenced by institutional circumstances. In Veblen's words: “The wants and desires, the end and the aim, the ways and the means, the amplitude and

drift of the individual's conduct are functions of an institutional variable that is of a highly complex and wholly unstable character" (cited in Hodgson, 1988: 20). However, Veblen's conception of individual action as a product of institutions is to the extent that "this individual conduct is attended to in those respects in which it counts toward habituation, and so *toward change (or stability) of the institutional fabric* (cited in Rutherford, 1994: 39, emphases ours). That is to say, from Veblen's point of view, it is the individual conduct, though structured and repressed by the existing institutions, that give rise to new and ever-changing institutional circumstances. Hence, institutions and individual actions are both stimuli and responses for each other. As Veblen clarifies:

The modern catchword . . . is 'response to stimulus' . . . but the constitution of the organism, as well as its attitude at the moment of impact, in great part decides what will serve as a stimulus, as well as what the manner and the direction of the response will be (cited in Seckler, 1975: 84).

Therefore, as the co-founder of Institutional Economics, Veblen's legacy can be directly related to the 'open system perspective', upon which he relied consistently. In this truly evolutionary perspective, which is clearly a source of inspiration for Hodgson, *the individual, as a social being, is both constructive within and constructed through society*.

In juxtaposition to Veblen, we should further scrutinize the foundations of institutionalism through a concise examination of the legacy of John R. Commons, the co-founder of Institutional Economics along with Veblen.<sup>63</sup> Commons' major message was to pay a simultaneous attention to both the individualistic and collectivistic aspects of social systems. To him, an institution is collective action controlling and at the same time liberating and expanding individual action. This definition implies that an institution is something more than a simple constraint: It liberates "the individual by securing a protected domain of action", and helps "individuals to accomplish

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<sup>63</sup> See Özçelik (2006) for more detailed examinations of the legacies of Veblen and Commons.

things and realize gains which could not be achieved by separate individual effort" (Vanberg, 1989: 345). Here, the rationale behind Commons' conception of institutions is that individual action alone cannot generate institutions. Without existing institutions, new institutions cannot come into being as mere by-products of the interaction of individual actions. The function of *institutions* in terms of moulding, structuring and facilitating *individual action* is, thus, a prerequisite for the latter to be able to yield new institutions. The idea of mutual and cumulative causation is manifest in Commons's idea that *man can adapt not only himself to his environment, but also his environment to his own preferences and purposes* (Chamberlain, 1963: 78). This is another way of conceptualizing the individual as *both constructive within and constructed through society*. Consequently, if mutual and cumulative causation is the essence of a truly evolutionary conception of 'the individual' and 'the institutional', then it is clear that original institutionalism, as founded by Veblen and Commons, involves an open system perspective. Hence, it is not surprising to encounter the 'open system perspective' as a major tenet of contemporary institutional economic thought (Hodgson, 1988).

The 'open system perspective' relies on the premise that the formation of individual preferences and purposes as well as technology cannot be taken for granted. "[S]ocial institutions and the social environment are part of the explanation of human action" (Hodgson, 1988: 61-2). Not only individual action yields institutions, but also institutions generate individual preferences and purposes. This is essentially a cumulative, unfolding and dynamic process. In this sense, reduction of the explanation to individuals or to institutions is equally irrelevant:

[A] synthesis, of explanations involving both individual agency and social structure, is required. . . . Whilst the aims and character of individuals help to explain the behaviour of social structures, also roles, culture and institutions have a partial effect on the goals and behaviour of individuals. . . . The individual 'parts', precisely because they relate closely to and are affected by the whole, cannot be taken as given. . . . Our very individuality and capacity to be free is formed by our

socio-economic environment. The basic element in society is not the abstract individual, but the social individual, *one who is both constructive within and constructed through society*. We should thus avoid . . . 'a sterile polarity between the individual and the social'. Emphases on the primacy of 'the individual' and of 'society' are both false . . . [W]hilst people are, on the one hand, purposeful and have real choices, they are, on the other, moulded by their cultural and institutional environment. (Hodgson, 1988: 64, 68, 69, 71, 72, emphases ours).

In this regard, we can equate a truly institutional or evolutionary approach with the 'open system perspective'. The causality relationship between 'the individual' and 'the institutional' is a *dynamic* process that runs in both directions. As such, we can contrast an open system with a closed system, in which there exists a *one-sided* and thus *static* causation between 'the individual' and 'the institutional'. Interestingly enough, not only the proponents of Institutional Economics, but also some variants of the liberal school of thought – most notably the members of the Austrian school – have always claimed to adopt an evolutionary approach, according to which economic phenomena are to be analyzed in terms of 'dynamic processes' rather than 'static equilibria' (Wynarczyk, 1992: 27). However, it is generally agreed that Austrians and institutionalists are polar opposites because the former are identified with methodological individualism (plus radical subjectivism), whereas the latter are associated with methodological holism. In this connection, we have already argued that Institutional Economics has adopted the 'open system perspective' from its outset onwards. The legacies of Veblen and Commons enable institutionalists to show up as self-proclaimed and legitimate evolutionary theorists. At this point, the reader should recall that we have already discussed the Austrian school as a typical variant of the liberal ideology. And, when it comes to fitting the Austrian approach into an open system perspective, a crucial drawback is inevitably encountered. The peculiarity of the methodological individualism of the members of this school comes from their *radical subjectivism*, whereby "[t]hey seem to argue either that action bears no significant influence of the environment, or that it is

beyond the scope of economic theory to enquire as to how purpose and actions may be determined" (Hodgson, 1988: 11). Hence, the Austrian methodology *per se* is indicative of a denial of the influence of social, cultural and institutional factors on purposeful individual actions. The result is a subscription to the idea that it is merely purposeful individual actions that give birth to social phenomena, and not *vice versa*: "Whilst purposeful individuals may act and cause events, we are left asking: what causes the purposes to arise in the first place?" (Hodgson, 1988: 60). Hence, just as orthodox economics has used to treat preferences and technology as exogenous variables, Austrians take individual purposes for granted. Analysis begins with the individual, "and beneath it no further analysis is invoked" (Hodgson, 1988: 67). Consequently, as an 'essential' representative of the liberal ideology, the Austrian approach remains as the subject of a one-sided causality confined to a 'closed' rather than an open system. And, what about Polanyi, whose *The Great Transformation* we regarded as the 'antidote' of economic liberalism? Is Polanyi's legacy a truly institutionalist or evolutionary one, which complies with the 'open system perspective'?

A social system is bound to collapse, unless the market-dominated operation of the economic structure is conditioned by the 'impurities' of political institutions, as Polanyian analysis indicates. In this sense, a purely economic system cannot work on its spontaneous rules. Indeed, "each system (or sub-system) contains 'impurities' which are not typical of the whole, but which are nevertheless necessary for the system to function" (Hodgson, 1988: 167). This is the so-called *principle of impurity* (Hodgson, 1984; chs. 6 & 7; 1988: 167-171 & 256-262; 1999: 124-130; 2001a: 333-40; 2001b: 70-75). Hodgson has developed the social-scientific 'principle of impurity' out of the natural-scientific *systems theory* (Bertalanaffy, 1950, 1971) and in juxtaposition to the "law of requisite variety" in open systems (Ashby, 1952, 1956). As such, the principle of impurity relies on the notion that "an open system has to contain sufficient variety to deal with all the potential variation in its environment" (Hodgson, 1988: 168). The 'principle of impurity' assumes its full meaning,

when it is considered together with another complementary principle; namely, the *principle of dominance*: “the notion that socio-economic systems generally exhibit a dominant economic structure” (Hodgson, 1988: 168); or more generally, “the notion that in socio-economic systems some provisioning institutions are more dominant than others” (Hodgson, 2001a: 336). For our purposes, these two social-scientific principles imply a kind of ‘methodological pluralism’ in relation to the conception of ‘the individual’ and ‘the institutional’, and hence they form a fertile ground on which to re-think the market-state dichotomy.

We must note that Hodgson was one of the first institutionalists to make use of the ‘institutional’ link between Polanyi and Schumpeter by means of the ‘principle of impurity’:

I have used the insights of Polanyi, Schumpeter and others to develop what I call the ‘impurity principle’. The impurity principle is proposed as a general idea applicable to all economic systems. The idea is that every socio-economic system must rely on at least one structurally dissimilar subsystem to function. There must always be a coexistent plurality of modes of production, so that the social formation as a whole has the requisite structural variety to cope with change. Thus if one type of structure is to prevail (for example, central planning) other structures (for example, markets, private corporations) are necessary to enable the system as a whole to work effectively. *In particular, neither planning nor markets can become all-embracing systems of socioeconomic regulation.* In general, it is not feasible for one mode of production to become so comprehensive that it drives out all the others. Every system relies on its ‘impurities’ (Hodgson, 2001b: 71-2, emphases ours).

In this connection, we will interpret the principles of impurity and dominance in a relatively new light. Polanyi’s framework of analysis of the relationship between ‘the economic’ and ‘the political’ provides us with a useful ‘methodological’ fulcrum, whereby we can cast a new light on *the relationship between ‘the individual’ and ‘the social’* – a deep-seated subject of debate in the history of economic thought, in which there existed usually two types of

contrasting methodologies: *methodological individualism* and *methodological holism*. As discussed earlier, the former can be roughly summarized as the idea that it is ‘the individual’ that determines ‘the social’, and not *vice versa*. In contradistinction, the latter maintains that it is ‘the social’ that determines ‘the individual’, and not *vice versa*.

We can note that ‘the economic’ (i.e., the market) is constituted from individual self-interests. ‘The market’ relies on economic actions at the level of *the individual* so as to form an integral part of *the social*. So, the market is an institution, which is constituted by ‘the individual’ and which constitutes ‘the social’. Here, we can identify a causal relationship that runs from ‘the individual’ to ‘the social’. On the other hand, *raison d’être* of ‘the political’ (i.e., the state) is collective or social interests. That is to say, the state rests upon political action at the level of ‘the social’, which, in turn, both enables and constrains ‘the individual’ in pursuing its economic interests. Hence, we can also identify a causal relationship that runs from ‘the social’ to ‘the individual’. As such, Polanyian concept of ‘embeddedness’ *per se* – the ‘symbiosis’ between ‘the economic’ and ‘the political’ – entails a two-sided causation between ‘the individual’ and ‘the social’. In other words, we cannot squeeze Polanyi’s methodology into either ‘pure methodological individualism’ or ‘pure methodological holism’. In this sense, Polanyi’s social-scientific analysis involves a kind of ‘methodological pluralism’, which we can identify with an ‘open system perspective’. As we examined elsewhere (Özçelik, 2006) following Hodgson (1988), the ‘open system perspective’ is a practical criterion to distinguish between methodological singularism and true institutionalism. Hence, Polanyi’s legacy, just like that of Veblen and Commons, is a truly institutionalist one as opposed to the methodologically singularist liberal schools.

We have identified ‘the economic’ with ‘the individual’, and ‘the political’ with ‘the social’ (or ‘the institutional’ for that matter). Now we can see the principles of impurity and dominance in a new light. In the context of

Hodgson's development of these principles, "[w]hat is involved is more than an empirical observation that different types of structure may co-exist within the economic system as a whole" (Hodgson, 1988: 168). Here, the grand idea is that non-dominant impurities of a social system are *necessary* for the system to survive in time and space. Indeed, the structural variety as such (the combination of slowing and accelerating phenomena) constitutes the integrity of the system as whole. While the dominant elements give the system its basic characteristics and momentum, the non-dominant and 'impure' ones enable the system to survive by serving as useful 'brakes' to the over-dynamism of the dominant elements. That is to say, the simultaneous interaction of antagonism and complementarity between the dominant and impure structures – the 'harmony of disharmony', as we dubbed it – implies an *embeddedness* of or *symbiosis* between 'the economic' and 'the political', i.e., 'the individual' and 'the institutional'.

So far as the liberal conception of institutions is concerned, the implications of these two principles, as derivative of the open system perspective, are clear. For instance, the Austrian type of unfettered *laissez-faire* relying on purely economic spontaneous processes turns out to be implausible with the incorporation of principles of impurity and dominance. In this regard, Hayek's conception of the spontaneous order is "one-directional in its scope" since "he . . . regards individual purposes and preferences as being exogenous to the system", even though "norms and conventions do not appear mysteriously from outside" as "he attempts to explain them in a sophisticated way as the unintended consequences of accumulated individual acts" (Hodgson, 1988: 137). Yet, the open system perspective entails the idea that "the order helps to form the individual, just as the acts of the individual help to form the order". Hence, Hayek's approach is not a truly evolutionary one, even though it is sometimes regarded as such. "A fully evolutionary view would take into consideration both the emergence, and affect of, the cultural and institutional framework on the purposes and actions of the individual" (Hodgson, 1988: 137-8). Indeed, the liberal ideology manifest both in the neoclassical theory

and the Austrian school – *as well as in the contemporary model of global governance* – is best identified with a conventional dualism: Individuals and markets are free and autonomous, whereas institutions serve to restrict this freedom and autonomy. This liberal dualism is, indeed, the very source of what we have dubbed so far as the market-state dichotomy. Put differently, political institutions encompassed by ‘the state’ are conceptualized as ‘impurities’ that impede the purely economic processes encompassed by ‘the market’. And it is exactly at this point where we can identify the ‘principles of dominance and impurity’ as the distinctive tenets of institutionalism *vis-à-vis* the individual-centered and market-oriented ideology of liberalism. In this vein, institutionalism *per se* becomes the most incisive ‘antidote’ of economic liberalism.

Let us then comment on what we have so far learned from Polanyi: *In a given period in historical time*, a social system is conceivable in terms of its economic and political components; i.e., ‘the market’ and ‘the state’. The ‘embeddedness’ of the two in social life is a prerequisite for the system to exist and survive. Either ‘the economic’ or ‘the political’ may become the dominant component of the system depending on circumstances. However, for the system to remain viable, neither ‘the economic’ nor ‘the political’ should annihilate the other so as to reign supreme over ‘the social’. What is needed is an ‘impure’ combination of the two, which together form the ‘harmony of disharmony’. Neither a ‘purely’ economic nor a ‘purely’ political system is feasible. From this point of view, not only the self-regulating market system, but also a comprehensive central planning system is bound to collapse. And, at first sight, this may seem to defy the spirit of *The Great Transformation*, which demonstrates the impossibility of pure economic spontaneity, and thereby suggests that collective regulation and planning will ensure “freedom in a complex society”. However, only after we realize that Polanyi was substantially against the commodification or marketization of land, labor and money, only then will we see that he did not imply a ‘purely’ central planning as the key to freedom in a complex society. Indeed, the ‘great transformation’

was a process, through which collective regulation and planning would rescue land, labor and money from the ‘commodity fiction’. It was a transformation against ‘economic purification’. Insofar as the markets for *genuine* commodities were concerned, Polanyi definitely accentuated the need for them since they would presumably serve as the non-dominant impurities without which dominant state-regulation could not be sustained. Towards the end of the Second World War, Polanyi observed that:

the disintegration of a uniform market economy is already giving rise to a variety of new societies. Also, *the end of market society means in no way the absence of markets*. These continue, in various fashions, to ensure the freedom of the consumer, to indicate the shifting of demand, to influence producers’ income, and to serve as an instrument of accountancy, while ceasing altogether to be an organ of economic self-regulation (Polanyi, 1944: 252, emphases ours).

Therefore, those Marxists who draw purely socialist conclusions from *The Great Transformation* as well as those liberals who hastily disregard it on the same account should re-think. Neither ‘the market’ nor ‘the state’ constitutes the priority in the opinion of Polanyi, for whom “the last word is society” (Polanyi 1944: x).

Moreover, the liberal market-state dichotomy arises from a further ignorance of the liberals with regards to the true nature of institutions. Institutions have indispensable social tasks alongside their restrictive functions. Institutions are widespread habits of thought and routines of action, which connect the past to the future:

[R]outines play a positive as well as negative part by passing on skills and other behavioural information from one agent or institution to the next. . . . [A]ction in present has the potential function of establishing or reinforcing future routine: thus that which is apparently ‘free’ may act as a rigidity or constraint in the future; and that which is apparently ossified and inflexible may provide vital behavioural information for the present (Hodgson, 1988: 144).

In an economy without institutions, economic agents would lack vital *informational guidelines* in the form of rigidities, routines and conventions, which have accumulated as institutionalized patterns from the past to the present. Agents can make present decisions and act accordingly by the help of institutional guidelines which come from the past. Hence, the continuity of a social system relies on the existence of a variety of politico-cultural institutions. The existing social system rests upon the existing ‘individual actions’, which are derivatives of the past ‘institutional setting’. In the context of the conception of ‘the institutional’ and ‘the individual’, the open system perspective has already been formulated simply as follows:

$$\dots IA_1 \rightarrow IS_1 \rightarrow IA_2 \rightarrow IS_2 \rightarrow IA_3 \rightarrow IS_3 \dots$$

In this process, for instance,  $IA_2$  – the product of  $IS_1$  – yield  $IS_2$  over time. Thus,  $IS_2$  rests upon  $IA_2$ , which involve the structuring and repressing effect of  $IS_1$ . The moulding influence of  $IS_1$  on  $IA_2$  is unavoidably felt, while  $IS_2$  is being generated. As such,  $IS_2$  harbors particular “ossified and inflexible” aspects of  $IS_1$  implying that  $IS_2$  cannot be a ‘pure’ institutional setting totally refined from the previous setting  $IS_1$ . In the substance of  $IS_2$  there always exist the remnants of  $IS_1$ .  $IS_2$  is inconceivable without the impurities that pertain to  $IS_1$ .

In dynamic and evolutionary terms, the impurity principle is testimony that all systems carry, and to some extent depend upon, residues of that which preceded them. All systems depend on impurities, and are further obliged to make use of those impurities bestowed by history. It is thus illegitimate to abstract from those impurities, either by assuming that modern economies are asymptotically approaching the purified ideal of a market economy (as in much of mainstream economics) or by assuming that each social revolution makes irrelevant much that had gone before (as in Marxian theory). On the contrary, each system is obliged – as institutionalists have emphasised – to build out of the remaining bric-à-brac of the past. All development is a process of creatively ‘making do’ with the historical legacy of institutions and routines. We can never build entirely anew (Hodgson, 1999: 147).

In this regard, we move into an ‘inter-temporal’ dimension in the context of the principles of impurity and dominance. Up to now, following Polanyi, we have defined the survival condition for an *existing* social system in terms of the relative power of the *existing* economic and political institutions (i.e., ‘the market’ and ‘the state’) *vis-à-vis* each other. Now, we are entering another dimension, whereby we will elaborate on the survival condition for the *existing* social system in terms of the maintenance of the institutions of *the past*. We should note that this inter-temporal dimension not only enforces the Polanyian concept of ‘embeddedness’ of ‘the dominant’ and ‘the impure’, but also establishes the institutional link between Polanyi and Schumpeter. This link has also a special importance for the future of Institutional Economics since it represents a case of “institutionalism by necessity” (Özveren, 1998), whereby the ‘heterodox’ economic science of the future can be constructed *vis-à-vis* the liberal orthodoxy. So, to conclude this section, we turn to Schumpeter, who had ‘his own tale to tell’.

In his *Capitalism, Socialism and Democracy*, Schumpeter (1942) also adopts an institutional or evolutionary reasoning based on the open system perspective. Even though he does not specifically refer to a self-regulating market system, Schumpeter does not fail to identify the ‘destructive innovativeness’ of the economic component of capitalism. In economic terms, capitalism is very successful, very dynamic, and very innovative so as to adapt to fast changing economic circumstances. As such, the capitalist economy incessantly rejuvenates itself. This is, indeed, the well-known Schumpeterian concept of ‘creative destruction’:

Capitalism . . . is by nature a form or method of economic change and not only never is but also never can be stationary. . . . The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers’ goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates. . . . The opening up of new markets, foreign or domestic, and the organizational development from the craft shop and factory to such concerns as U. S. Steel illustrate the same process of industrial mutation – if I

may use that biological term – that incessantly revolutionizes the economic structure *from within*, incessantly destroying the old one, incessantly creating a new one. This process of Creative Destruction is the essential fact about capitalism. It is what capitalism consists in and what every capitalist concern has got to live in (Schumpeter, 1942: 82-3).

However, for Schumpeter (1942: 112), “the capitalist order is essentially the framework of a process not only of economic but also of social change”. And, capitalism is creatively destructive only in the economic domain. In other words, ‘creative destruction’ is essentially – or ‘purely’, so to speak – an economic process. Insofar as the non-economic domain is concerned, a process of “uncreative destruction” (Özveren 2000) prevails: The political institutions and cultural values of *the past* have been dismantled by the very dynamism of the capitalist economy. Insofar as capitalism achieved economic success, it destroyed its ‘non-dominant’, ‘impure’ “protecting strata”, which it inherited from the previous institutional setting; i.e., feudalism. However, capitalism as a social system cannot dispense with those *old* (feudal), non-economic (politico-cultural) impurities, which hold the system in integrity. In this sense, capitalism is a social system, which, by definition and construction, is bound to be the victim of its economic success (just as the ‘self-regulating market system’). And, the elimination of the *old politico-cultural institutions* by the dynamic capitalist economy is Schumpeter’s chief reason behind his grand prognosis that capitalism is bound to collapse:

The thesis I shall endeavor to establish is that the actual and prospective performance of the capitalist system is such as to negative the idea of its breaking down under the weight of economic failure, but that its very success undermines the social institutions which protect it, and inevitably creates conditions in which it will not be able to live . . . (Schumpeter, 1942: 61).

The capitalist economy was harbored by pre-capitalist politico-cultural institutions, which were not as dynamic and adaptive as ‘the economic’, yet which protected the system as a whole:

Capitalist evolution first of all destroyed, or went far toward destroying, the institutional arrangements of the feudal world – the manor, the village, the craft guild. . . . Economically all this meant for the bourgeoisie the breaking of so many fetters and the removal of so many barriers. . . . But, surveying that process from the standpoint of today, the observer might well wonder whether in the end such complete emancipation was good for the bourgeois and his world. *For those fetters not only hampered, they also sheltered* (Schumpeter, 1942: 135, emphases ours).

In other words, so long as the capitalist bourgeoisie and pre-capitalist aristocracy represented the ‘embedded’ economic and political institutions of the evolving social system – as of the early phases of capitalism – there was no problem in maintaining the ‘harmony of disharmony’ between ‘the dominant’, which was new, and ‘the impure’, which was old: “It was an active symbiosis of two social strata, one of which no doubt supported the other economically but was in turn supported by the other politically” (Schumpeter, 1942: 136). In this sense, the feudal aristocracy – representing the politico-cultural framework of capitalism – was a *protecting master* from the viewpoint of the capitalist bourgeoisie. “But, the capitalist process, both by its economic mechanics and by its psycho-sociological effects, did away with this protecting master. . . .” (Schumpeter, 138-9). As such:

In breaking down the pre-capitalist framework of society, capitalism thus broke not only barriers that impeded its progress but also flying buttresses that prevented its collapse. That process, impressive in its relentless necessity, was not merely a matter of removing institutional deadwood, but of removing partners of the capitalist stratum, symbiosis with whom was an essential element of the capitalist schema (Schumpeter, 1942: 139).

Along all these Schumpeterian lines, one can easily discern his utilization of the principles of impurity and dominance. Polanyi’s notion of ‘embeddedness’ becomes ‘symbiosis’ in Schumpeter’s case, and both concepts refer directly to what we dubbed the ‘harmony of disharmony’ between ‘the economic’ and ‘the non-economic’. Under the capitalism of the nineteenth-century civilization,

‘the economic’ represented ‘the dominant’, whereas ‘the politico-cultural’ denoted ‘the non-dominant’. The former gave the system its basic characteristic and momentum, whereas the latter provided the *necessary impurities*, which acted so as to mitigate the destructive movement of the former. However, insofar as the capitalist economy – or the “One Big Market” (Polanyi, 1944: 72) – *accelerated* in the direction of eliminating the *decelerating yet protective* function of ‘the institutional’, the system tended towards economic purification, which meant self-destruction. At this point, as evidence of the significance and relevance of a truly institutional perspective *vis-à-vis* the liberal utopia, we invite the reader to contemplate the impressive parallel, logical consistency and coherent fluency that run through the following three quotations:

The rate of change is often of no less importance than the direction of change itself, but while the latter frequently does not depend upon our volition, it is the rate at which we allow change to take place which well may depend upon us. A belief in spontaneous progress must make us blind to the role of government in economic life. This role consists often in altering the rate of change, speeding it up or slowing it down as the case may be; if we believe that rate to be unalterable – or even worse, if we deem it a sacrilege to interfere with it – then, of course, no room is left for intervention” (Polanyi, 1944: 36-37).

[A]ction in present has the potential function of establishing or reinforcing future routine: thus that which is apparently ‘free’ may act as a rigidity or constraint in the future; and that which is apparently ossified and inflexible may provide vital behavioural information for the present (Hodgson, 1988: 144).

A system – any system, economic or other – that at *every* given point of time fully utilizes its possibilities to the best advantage may yet in the long run be inferior to a system that does so at *no* given point of time, because the latter’s failure to do so may be a condition for the level or speed of long-run performance (Schumpeter, 1942: 83).

Now that we have established the institutional link between Polanyi and Schumpeter, we can conclude this section. In consequence, writing during the Second World War, both Polanyi and Schumpeter reached the conclusion that a new *politico-economic* order was in the making to replace the previous utopia of constructing a purely *economic* order. Polanyi observed a ‘great transformation’ from the self-regulating market system towards ‘planned regulation’, which would salvage the cohesive elements of society from the ‘commodity fiction’ and thus ensure freedom in a complex (world) society. Schumpeter (1942: 61) declared the “inevitability” of the collapse of the capitalist system, the “heir apparent” of which was socialism – and this was reminiscent of a kind of ‘market socialism’ as he elaborated its prospective features in detail (Schumpeter, 1942: 165-302). Nevertheless, a retrospective look at the past sixty years reveals that the prognoses of neither Polanyi nor Schumpeter have come to be fully realized. It is true that, in the post-war period, planning, developmentalism and the idea of welfare states were predominant. However, this was clearly less than what Polanyi predicted. Indeed, this was merely a ‘quantitative’ decrease in the extent of ‘the market’ rather than a ‘qualitative’ change to emancipate ‘the social’ from the fetters of the ‘commodity fiction’. In other words, markets for ‘fictitious commodities’ continued to exist in the post-war period, even though social dislocation and degradation were significantly reduced by the ‘social protection’ policies adopted by the welfare state. On the other side, it is by no means possible to claim that capitalism collapsed in the meantime. It seems that more time is needed for Schumpeter’s prognosis to come true. However, Schumpeter (1942) had already warned us that social-systemic tendencies, which point out a system-wide collapse in the short-run, should be considered cautiously since “a century is a ‘short-run’” (163) in the case of such a ‘great transformation’.

All in all, despite the impressiveness of their diagnoses about the market economy and capitalism, the prognoses of Polanyi and Schumpeter seem to have somewhat failed in terms of full materialization. It is in this connection where we should examine the ‘institutional’ work of the most influential

economic historian of the twentieth century. Namely, it is time to turn to Fernand Braudel. We will now impose a world-economy level of analysis upon Schumpeter's conception of capitalism *via* an institutional synthesis of Polanyi and Braudel in terms of their contrasting conceptions of 'the market'.

### **5.2. Introducing Capitalism to Hayek-Polanyi Polarity: Polanyi-Schumpeter Rapprochement in the Light of Fernand Braudel's Legacy<sup>64</sup>**

In the beginning of this study, we have set forth our objective in terms of two interrelated tasks:

- i) To construct an original perspective of Institutional International Political Economy (Iipe) so that our understanding of capitalism-as-a-historical-world-system can be heightened, and
- ii) To demonstrate that 'reclaiming development' has never been more formidable throughout capitalist history than in the present century.

So far, we have paved the way for achieving these tasks. First, we tried to demystify the tenets of economic liberalism by means of what we dubbed 'Hayek-Polanyi polarity'. We hope to have demonstrated that a Polanyi-oriented institutional political economy is the most incisive antidote of liberal ideology, of which Hayek was the most considerable proponent. Our case for Polanyi-Schumpeter rapprochement should have further invigorated our institutional critique of the liberal utopia. Neither 'the economic' nor 'the political' can forever reign supreme over 'the social', the lifeline of which is the symbiosis between 'the impure' and 'the dominant'. As such, social systems – and thus the survival of society – can be maintained by protecting this symbiotic relationship against the 'anti-social'. If 'the economic' (the processes of 'the market') and 'the political' (the institutions of 'the state') constitute 'the social' as an 'organic' unity, then the crucial question is: What

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<sup>64</sup> This section is a substantially augmented version of Özçelik (2005: 142-52), on which it partially relies.

is the ‘anti-social’, against which society is to be protected? The answer to this question will not only complete our IIPE-perspective, but also help us demystify the contemporary model of global governance model. In this regard, the significance of Fernand Braudel’s extraordinary historiography will become self-evident in what follows.

Secondly, we tried to point out a contemporary *anomaly* insofar as a retrospective analysis of the capitalist history is concerned. ‘The market’ and ‘the state’ have been utilized as two complementary tools at the hands of the commanding heights of the world economy throughout capitalist history. Establishment and maintenance of ‘flexible’ markets for ‘fictitious’ commodities required the ‘liberal intervention’ of the state. Nowadays, however, an unprecedented world-system may be evolving, if the commanding heights of the capitalist world economy – via the global governance model – are attempting to construct a set of ‘fictitious’ *state institutions* in conjunction with the *market processes*. Both ‘the market’ and ‘the state’ have been utilized as capitalist means of economic power accumulation throughout capitalist history. For instance, in the nineteenth century civilization, ‘the self-regulating market’ at national level was established by means of ‘the liberal state’, the *raison d’être* of which then turned out to be the maintenance of self-regulating national markets. Similarly, the balance-of-power system at international level could be maintained by means of the international gold standard, which, in turn, relied on ‘peaceful’ international markets. This mutually effective reliance between ‘the economic’ and ‘the political’ had found its best expression in the ‘coalition’ between: i) the capitalist bourgeoisie and the pre-capitalist aristocracy at national level, and ii) the ‘high financiers’ and the nation-states, which simultaneously developed a peace interest at international level. After the Second World War until the 1980s, markets for ‘fictitious’ commodities remained to exist. Yet, this time, they were regulated by the state. Thereafter, 1980s represented the revival of the self-regulating market era, during which the market-friendly policies and reforms were carried out by the liberal states. In other words, until quite recently, the capitalist world economy has chosen to

rely on *both* ‘the market’ and ‘the state’ as means of economic power accumulation. One can even define capitalism as a world-system with two *indispensable* instruments: The capitalist market and the capitalist state. Indeed, it is our contention that capitalism is not conceivable in the absence of either of these two major institutions. And if the global governance model happens to transform the institutions of the state into self-regulating market processes, this will have two grand implications:

- i) The resulting system would not survive long since society and civilization – at national and international levels – can only exist within a ‘*political economy*’, and not within an ‘*economic economy*’. Such a system would not only be transitory, but also *non-capitalist*. Because, like other social systems, capitalism can neither do without the ‘harmony of disharmony’ manifest in the centuries-old capitalist ‘coalition’ between ‘the market’ and ‘the state’. Hence, if ‘governance’ is actually a capitalist attempt to maintain capitalism-as-a-historical-world-system, it may well become the victim of its own success.
- ii) ‘Reclaiming development’ would become impossible since the state’s roles as ‘the economic planner’ and ‘the protector against pure market logic’ will have been totally eliminated following its liquidation into open-ended market processes. In the transition to *non-capitalism*, humanity may have to face unprecedented social dislocation and civilizational degradation at national and global levels due to the *singularization* of the double movement.

In the rest of this section, we will try to demonstrate that the impressive, centuries-long success of capitalism-as-a-historical-world-system relied on its unlimited flexibility in bending the *truly* fair and competitive rules of ‘the true market’ by means of establishing privileged connections with the state apparatus. In this vein, we will have recourse to Fernand Braudel’s unconventional conception of capitalism *vis-à-vis* ‘the market’ so that our

IIPE-perspective based on the Polanyi-Schumpeter rapprochement can be completed. At this point, we should note that the works of Polanyi and Braudel have usually been known as incompatible analyses of the phenomenon of ‘the market’. On the one hand, Polanyi is definitely ‘market-unfriendly’. On the other hand, Braudel’s conception of ‘the market’ is full of sympathy. Here, however, we will demonstrate that ‘the market’ that Polanyi dissents from and ‘the market’ that Braudel sympathizes with are not one and the same. In doing so, we will be also able to distinguish between ‘the capitalist market’ and ‘the true market’, which we mentioned in our Introduction. Thus, we will concisely submit Braudel’s *Civilization and Capitalism* as a ‘market-friendly’ antidote of the liberal ideology. For the purposes of this study, it is a good idea to juxtapose Braudel’s work with the Austrian liberalism, which we have already discussed in the preceding section 5.2. Equipped with two synthesizable antidotes for the liberal utopia (i.e., Polanyian and Braudellian *anti-liberal* research programs); we will then conclude this section by superimposing a world-economy level of analysis upon Schumpeter’s conception of capitalism.

Fernand Braudel’s three-volume masterpiece (1981, 1982, 1984), *Civilization and Capitalism: 15<sup>th</sup> - 18<sup>th</sup> Century*, is basically concerned with capitalism-as-a-historical-world-system, which rests on two civilizations: The economic life and the material life. In the context of Braudel’s social-historical construction of the world-economies, the temporal and spatial landscape of the *capitalist* matrix can be summarized in terms of a *pyramid* (Özveren, 2005) with three floors: The material life at the basement, then the market economy in the middle, and the true home of capitalism as commanding heights at the top. Within this analytical construction:

- i) The top layer of capitalism is characterized by the accumulation and concentration of economic power in terms of ‘monopolization’ and ‘speculation’ carried out by the privileged few.
- ii) The market economy or ‘economic life’ with an egalitarian diffusion of economic power takes place in the middle floor, which is, by

nature, characterized by fair and free competition as well as reciprocity of needs.

- iii) Self-sufficiency or ‘material life’ prevails at the bottom, which corresponds to an infra-economy, where the bulk of society survives.

These three layers not only co-exist in time and space, but also constitute capitalism-as-a-historical-world-system. In other words, the top layer of capitalism thrives over ‘the material’ and ‘the economic’, without which it cannot exist and survive. Each layer may transform the structures of others over time. Therefore, their relative sizes change as time passes and geographies differ. At least for Europe from the fifteenth to the eighteenth century, Braudel’s demarcation among these three levels in terms of a *monetary segregation* is quite interesting:

Europe stood alone and was already something of a monetary monster. It experienced the whole gamut of currency experience. On the lowest level, and to a greater extent than is usually believed, were barter, self-sufficiency and primitive money—old expedients, indirect means of economizing on specie. At a higher level came relatively plentiful supplies of metallic money—gold, silver and copper. Finally there were many kinds of credit, from the pawnbroking activities of the Lombards and Jewish merchants to the bills of exchange and speculation of the great trading centers (Braudel, 1981: 457).

Here, we encounter a temporal and spatial conception of three distinct spheres of *economic action* in terms of the use of specific media of exchange. As we move from the bottom towards the top, the media of exchange show up in more ‘mature’ forms. If we allow enough time to pass within each level, it is reasonable to expect higher forms of exchange to evolve. Therefore, in the first place, Braudel’s three-floor pyramid involves a sort of ‘monetary diversity’ in time as well as in space. Moreover, the co-existence of barter, metallic money and credit is supportive of Hodgson’s development of the ‘principle of impurity’, which he based on the “law of requisite variety” in open systems (Ashby, 1952, 1956). At this point, the reader is invited to recall that “an open system has to contain sufficient variety to deal with all the potential variation

in its environment" (Hodgson, 1988: 168). As such, Braudel's conception of capitalism-as-a-historical-world-system in terms of the three-floor pyramid is an 'open system' involving diverse forms of media of exchange. Indeed, Braudel's focus upon 'monetary diversity' is especially important for us. As we will elaborate later on, for Braudel, *capitalism is essentially a monetary phenomenon*:

Is there really any absolute difference in kind between metal specie, substitute money and instruments of credit? . . . This problem, which opens the door to so much debate, is also the problem of modern capitalism: it was in these domains that capitalism first flexed its muscles, found its instruments and in seeking to define those instruments became 'conscious of its existence' (Braudel, 1981: 475-6).

For the time being, we should remind the reader of the fact that the passage above is a context where "Braudel refers to Schumpeter while identifying the 'homeland' of capitalism" (Özveren, 2005). The parallel between Braudel and Schumpeter – in terms of their conceptions of capitalism as essentially a monetary phenomenon – is self-evident in the following excerpt:

[C]apitalism is that form of private property economy, in which innovations are carried out by means of borrowed money, which in general, though not by logical necessity, implies credit creation. A society, the economic life of which is characterized by private property and controlled by private initiative, is according to this definition not necessarily capitalist, even if there are, for instance, privately owned factories, salaried workers, and free exchange of goods and services, either in kind or through the medium of money (Schumpeter, 1939, vol. I: 223).

Here, following Braudel and Schumpeter, we move to an unconventional definitional domain insofar as capitalism is concerned. Apart from class analysis and relations of production, the two authors tend to define capitalism in terms of the utilization of the institution of money. In the pages that precede, we have already argued that Polanyi's work was basically an attempt to analyze the 'nineteenth century capitalism' in terms of a specific 'mode of

exchange' rather than a specific 'mode of production'. He emphasized the decisive role played by 'high finance' especially in the second half of the nineteenth century. This important convergence among the three authors will help us define capitalism as not only a monetary but also an international phenomenon in the pages that follow. This is, indeed, the context whereby we will be able to impose a world-economy level of analysis upon Schumpeter's conception of capitalism.

Let us now return to Braudel's pyramid to understand the nature of the transformations from the bottom to the middle, and from the middle to the top floors. In doing so, we will be able to perceive the true nature of capitalism as well as to assess the validity of pro-market stance of the liberal ideology. In Braudel's analysis, the transformation from the bottom to the middle layer (from material towards economic life) is gradual since material life entails slow rhythms:

Ever-present, all-pervasive, repetitive, material life is run according to routine: people go on sowing wheat as they always have done, planting maize as they always have done, terracing the paddy-fields as they always have done, sailing in the Red Sea as they always have done. . . . And material civilization has to be portrayed . . . alongside that economic civilization . . . which co-exists with it, disturbs it and explains it a contrario . . . This double register (economic and material) is in fact the product of a multisecular process of evolution. . . . Since the process began, there has been coexistence of the upper and lower levels, with endless variation in their respective volumes (Braudel, 1981: 28).

Here, one can discern a kind of 'harmony of disharmony' between the material civilization and economic civilization. The economic civilization and the *non-economic* material civilization have evolved together from the very beginning. The latter 'spontaneously' gave way to and supported the latter. As such, the material civilization of self-sufficiency has turned out to be the *foundation* of the economic civilization of surplus exchange. And the material civilization never vanished in space and over time since it was indispensable to the survival

of the economic civilization. Even when the economic civilization tended to become the *dominant* mode of social life, it still relied on the *impurities* of the material civilization, which constituted the fount and matrix of the social system in Polanyi's parlance.

In this connection, we should return to Polanyi for a while. One major thesis to be found in *The Great Transformation* is that the self-regulating market system of the nineteenth century civilization was unique in the sense that 'the market' had never before served as the fount and matrix of any prior socio-economic system. In this sense, the nineteenth-century civilization was a kind of *anomaly* in human history. In fact, this aspect of *The Great Transformation* (along with other works of Polanyi) nicely accords with Braudel's endeavor to write a "general economic history" (Braudel, 1981: 21). Braudel provides us with a 'general' account of capitalism-as-a-historical-world-system, in which the material civilization is *normally* the fount and matrix of the system. The nineteenth-century civilization, however, showed up as a special, indeed exceptional, case, where the market economy subjugated material life through the social dislocations it produced. As such, the research programs of Polanyi and Braudel are in fact compatible with and complementary to each other. Despite the common wisdom that Polanyi and Braudel held totally different views regarding the phenomena of capitalism and market, an objective and careful analysis of the respective works of the two may reveal that they would agree with each other, if they could find the opportunity to communicate interactively.<sup>65</sup>

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<sup>65</sup> See Özveren (2005) for the convergence of opinion between Braudel and Polanyi on issues of economic history as well as on the conception of 'the market'. Presumably due to his lack of a good command of the English language, Braudel exhibits some misunderstandings concerning Polanyi's research program, and thereby develops a critical attitude towards his works (Polanyi, 1944 & Polanyi *et al.*, 1957). However, in writing the following sentences, Braudel is as if unconsciously asking for excuse from Polanyi: "So there is no simple linear history of the development of markets. In this area, the traditional, the archaic and the modern or ultra-modern exist side by side, even today" (Braudel, 1981: 26). These sentences are a direct approval of the *institutionalist* research program that Polanyi pursued along his life, and through which Hodgson developed the 'principle of impurity' in line with Polanyi.

One important difference of opinion between Polanyi and Hayek-like liberals arises from the perception of the emergence of ‘the market’. For Polanyi, ‘the market’ is the product of conscious human design; whereas, for the Austrians and other liberals, it has spontaneous and natural origins. In this regard, we can turn to Braudel as an authoritative referee to detect who is right. In Braudel’s discussions of the formation of towns and cities all over the world, one can detect the pre-dominance of a spontaneous emergence and gradual evolution of markets out of *social necessity*. When the ‘limits of the possible’ are reached in material life, a transition starts towards the economic life. Indeed, when self-sufficiency can no more be maintained, the social mechanism starts to give birth to an ‘embryonic’ market economy. Non-sustainability of self-sufficiency forces the social mechanism to find a way out. In other words, inadequacy of the existing livelihood possibilities generates the way out in the form of a gradual transformation from material to economic life. Towns, as spatial institutions, are crucial within this process:

Where there is a town, there will be division of labor, and where there is any marked division of labor, there will be a town. No town is without its market, and there can be no regional or national markets without towns (Braudel, 1981: 479-81).

Not surprisingly, within these transformations from self-sufficiency towards economic life, the evolution of ‘money’ accompanies that of markets. In human history, “[a] rudimentary form of money appears as soon as commodities are exchanged. A more sought-after or more plentiful commodity plays or tries the part of money, the standard of exchange” (Braudel, 1981: 442). Such “more sought-after” or relatively abundant commodities, which served as media of exchange in human history, exhibit a great variety including salt, cotton, cloth, copper bracelets, gold dust, horses, sea-shells, dried fish, furs, and even slaves (Braudel, 1981: 442-3). Archaic though they might have been, those forms of media of exchange were well able to facilitate and intensify market transactions: “[O]ne is obliged to conclude that primitive currencies were indeed forms of money, with all the appearances and properties of money” (Braudel, 1981: 444). As the markets evolved, monies

did the same, and *vice versa*. Put differently, “[b]arter remained the general rule over enormous areas between the fifteenth and eighteenth centuries. But whenever the occasion demanded, it was eked out, as a sort of first step towards money, by the circulation of currencies, such as cowrie shells” (Braudel, 1981: 439). The simultaneous evolution of markets and commodity-money was basically driven by the increasing needs of evolving society: “Money only becomes established where men need it and can bear the cost. Its flexibility and complexity are functions of the flexibility and complexity of the economy that it brings into being” (Braudel, 1981: 439).

One should admit that Braudel’s conception of the emergence of markets along with that of money is most likely to suggest a ‘spontaneous’ process (in the Austrian sense of the word). If those transformations had involved ‘conscious human design’, the consequences would have been obtained presumably much more rapidly. However, ‘material life’ is the domain of the *longue durée* characterized by ‘slow rhythms’ and ‘resistance to change’. The material civilization defies ‘revolutionary’ human design and thus complies with ‘evolutionary’ spontaneity. Hence, Braudel’s analysis of the emergence of markets is well compatible with the Mengerian (and thus Austrian) analysis of the origins of institutions, which we discussed in section 5.2. The Mengerian sequence runs from ‘self-sufficiency’ to ‘production on order’, and thenceforth to ‘production for future sale’. It is the problematic nature of ‘self-sufficiency’ that generates a new way of exchange in the form of ‘production on order’; and again the problematic nature of ‘production on order’ that yields ‘production for future sale’ and a ‘market economy’, and so forth. The notion of problematic nature corresponds to what Braudel terms the limits of the possible, which, in its turn, is the *primum mobile* of the multisecular process of evolution from material to economic life. Consequently, insofar as the origin of the primordial forms of markets is concerned, Austrians are approved by Braudel. At this stage, Polanyi’s attribution of the origin of ‘the market’ to ‘human design’ seems to be falsified. However, whether Braudel’s authoritative

conception of the emergence of markets implies an error on Polanyi's part remains to be seen.

In addition to the emergence of markets, the evolution of markets together with 'money', as manifest in Menger's analysis, can also find support in Braudel's discussions of 'money and credit'. Money and credit are techniques that "become inherited and are inevitably passed down through example and experience" (Braudel, 1981: 477). Menger had argued that:

The higher the level of civilization attained by a people and the more specialized the production of each economizing individual becomes, the wider become the foundations for economic exchanges (Menger, 1981: 239).

In this connection, the reader can easily note the parallel between Menger and Braudel:

The techniques of money, like any other techniques, are therefore a response to express, insistent and often-repeated demand. The more developed an economy became, the wider the range of monetary instruments and credit facilities it employed (Braudel, 1981: 477).

The techniques of money – like any other techniques (such as those of markets, market economy, law, state, etc.) – emerge in a spontaneously interconnected mode, and eventually culminate into social routines over time. In this sense, such techniques form social institutions, which come into existence as responses to the limits of the possible within the structures of everyday life.

Apart from the spontaneous origin and evolution of markets and commodity-monies, there is another point of convergence between Braudel and the Austrians: The *dynamic nature* of 'the market'. While demonstrating that market economies existed well before the nineteenth and twentieth centuries, Braudel's indication is that the market is a *process*:

*Historically, one can speak of a market economy ... when prices in the markets of a given area fluctuate in unison, a phenomenon the more characteristic since*

it may occur over a number of different jurisdictions or sovereignties. ... Prices have fluctuated since ancient times; by the twelfth century they were fluctuating in unison throughout Europe. Later on, this concord became more precise within ever stricter limits. Even the tiny villages of the Eaucigny in the eighteenth-century Savoy, a high mountain region where communication is difficult, saw prices go up and down, from one week to the next, on all the markets in the area according to harvests and needs, in other words supply and demand (Braudel, 1982: 227-8, emphases added).

The distinctive characteristic of ‘the market’, in this account, is the *harmonious fluctuation of prices*. Harmony as such is reminiscent of *converging*, rather than *equilibrating*, prices. At this point, one should recall the famous Austrian conception of the market as a *discovery process*, through which prices converge towards equilibrium. The Austrians – as well as Schumpeter – always emphasize the *search for equilibrium* rather than the *equilibrium itself*. Interestingly, this is more or less how Braudel perceived the operation of ‘the market’: “In an overall structure which had an obstinate tendency towards a routine balance, and which left it only to revert to it, this was the zone of change and innovation” (Braudel, 1982: 25). Presumably, the use of a strong adjective like ‘obstinate’ to characterize the tendency of the market towards equilibrium is to point out that the market leaves the state of equilibrium for tiny intervals of time so as to revert to it immediately. However, unless such deviations from equilibrium were extremely frequent, Braudel would not single out the market as the “zone of change and innovation”. Therefore, like the Austrians, Braudel puts emphasis on the *dynamic nature of the search towards the routine balance* rather than the routine balance itself. Indeed: “[T]he market complex . . . is itself constantly evolving and changing; it never has the same meaning or significance from one minute to the next” (Braudel, 1982: 224).

Consequently, Braudel’s authoritative inquiry into economic history tends to reveal that Austrian economics provides us with a serviceable set of conceptions regarding not only the spontaneous emergence and evolution of

markets and money, but also the essence of the dynamic market processes. If the Austrian school can break its *a prioristic* mould so as to approve the use of empirics, it seems that Braudel's three-volume *magnum opus* utilized in this study may well serve as a constructive departure point. However, whether the Austrians can find support from Braudel in terms of their categorical pro-marketism is a more important subject-matter as far as our purposes are concerned.

Members of the Austrian school as well as liberal ideologists of similar bent have consistently shown up as uncompromising opponents of socialism and as advocates of a free market system. Socialism entails central planning as opposed to the market system of capitalism. As we discussed in section 5.2., for the Austrians, inasmuch as central planning lacks a freely operating price mechanism, it can by no means translate tacit market knowledge into informative signals. In this sense, a 'market system under capitalism' is superior to 'central planning under socialism', whereas the former and the latter are conceived as *exact opposites* by the Austrians. Here, there is a crucial implication that must be emphasized. In the Austrian context, 'central planning' and 'socialism' are more or less the same things. And much more crucially, and more often than not, Austrians also consider the 'market economy' and 'capitalism' the same thing. This Austrian viewpoint becomes crystal clear in a passage where Mises accentuates the spiky distinction between the market economy and socialism:

The market economy must be strictly differentiated from the second thinkable—although not realizable—system of social cooperation under the division of labor: the system of social or governmental ownership of the means of production. This second system is commonly called *socialism, communism, planned economy, or state capitalism*. *The market economy or capitalism*, as it is usually called, and the socialist economy preclude one another (Mises, 1949 [1963]: 258, emphases added).

The seeming peace between the Austrians and Braudel comes to an end precisely at this point. Braudel's analysis indicates that market economy is one

thing, and capitalism quite another. In Braudel's three-floor pyramid, the middle floor corresponds to the *transparent* market economy characterized by *free and fair competition*, whereas the top-layer of capitalism makes its abode from *speculation and calculation*. Rather than a simple categorical demarcation, Braudel, by means of his grand research program, arrives at a sharp difference between the very mentalities involved in 'the market economy' and 'capitalism':

In this confrontation between model and observation, I found myself constantly faced with a regular contrast between a normal and often routine exchange economy (what the eighteenth century would have called *the natural economy*) and a superior, sophisticated economy (which would have been called *artificial*). I am convinced that this distinction is tangible that the agents and men involved, the actions and mentalities, are not the same in these different spheres; and that *the rules of the market economy regarding, for instance, free competition as described in classical economics, although visible at some levels, operated far less frequently in the upper sphere, which is that of calculations and speculation*. At this level, one enters *a shadowy zone*, a twilight area of activities by the initiated which I believe to lie at the very root of what is encompassed by the term *capitalism*: the latter being an *accumulation of power* (one that bases exchange on the balance of strength, as much as, or more than on the reciprocity of needs) a form of *social parasitism* which, like so many other forms, may or may not be inevitable (Braudel, 1982: 22, emphases ours).

The crucial implication of this difference between 'the market economy' and 'capitalism' is as follows: While *spontaneous* emergence of markets out of social necessity (i.e., out of the non-sustainability of self-sufficiency) is quite reasonable an inference from Braudel's scheme, the same is not true for his conception of the 'world-economies' that are built up at the level of nations as well as at world-scale. Indeed, "it would be more accurate to think of the market economy as being built up step by step" (Braudel, 1982: 228).

As far as ‘material life’ gives birth to *markets*, Braudel approves this process as a case of spontaneity. Spontaneity as such is also accompanied by a *beneficial* process pertaining to ‘the true market’ – free and fair competition, transparency, reciprocity of needs. This spontaneous process is a transformation of the structures of ‘material life’ into the dynamic elements of ‘economic life’. However, as far as the ‘economic life’ gives rise to *capitalistic* modes of action – speculation, calculation, monopolization – in the form of a transformation from the middle to the top floor, Braudel sees no beneficial spontaneity within such an artificial transformation. In other words, while the Austrian/liberal motto that *markets* had spontaneous origins is approvable, their attribution of superior efficiency to the *capitalist* market economy (*vis-à-vis* central planning) is all the more doubtful in the face of Braudel’s analysis. Braudel’s sympathies are with the truly competitive and transparent *markets*, which can form a *non-capitalist* market economy “with its many horizontal communications between the different markets: here a degree of automatic coordination usually links supply, demand and prices” (Braudel, 1982: 230). In this ‘true market’, free and fair competition is to prevail in the framework of a normally routine exchange economy. However, capitalism is “a shadowy zone”, where exchanges are based on the accumulation of power among capitalists themselves, and against the market economy vertically downwards. The transparent market economy operates on the “reciprocity of needs” between producers and consumers, and savers and investors. Within this setting, capitalism and market economy are not only different from each other, but also “exact opposites” (Braudel, 1982: 22). The artificial economy of capitalism is much more sophisticated. Apart from being the product of a beneficial spontaneity, the top floor of Braudel’s pyramid or the commanding heights of the world economy is:

the zone of the *anti-market*, where the great predators roam and the law of the jungle operates. This – today as in the past, before and after the industrial revolution – is the *real home of capitalism* (Braudel, 1982: 230, emphases ours).

In our point of view, “the zone of the anti-market” or “the real home of capitalism” is the powerful entity, which consciously constructed what Polanyi coined as the “One Big Market” (Polanyi, 1944: 72). The self-regulating market system at world-economy level of analysis did not emerge spontaneously; it was man-made. It is exactly at this point where Braudel definitely diverges from the Austrian/liberal view so as to converge directly towards Polanyi. The ‘One Big Market’ involves the augmentation of ‘normal’ markets for *genuine* commodities by constructing and including the markets for *fictitious* commodities. Such augmentation requires the exertion of artificial forces from outside of ‘the true market’. Thanks to Braudel, we are in a position to argue that such artificial forces come from capitalism – the zone of the anti-market just above ‘the true market’.

Moreover, as mentioned earlier, Polanyi was basically critical of the marketization or commodification of land, labor and money – the *fictitious* commodities. In contra-distinction, Polanyi emphasized the need for markets for *genuine* commodities, even in the post-‘great transformation’ era:

*[T]he end of market society means in no way the absence of markets.* These continue, in various fashions, to ensure the freedom of the consumer, to indicate the shifting of demand, to influence producers’ income, and to serve as an instrument of accountancy, while ceasing altogether to be an organ of economic self-regulation (Polanyi, 1944: 252, emphasis ours).

Similarly, Braudel expressed his sympathies with ‘the market’ *provided that* “it should not rule supreme and unchecked” (Özveren, 2005). Hence, given this promising convergence between Polanyi and Braudel, it is all the more unreasonable to expect that Braudel would speak highly of the ‘self-regulating market system’ of the ‘nineteenth century civilization’. Indeed, the ‘One Big Market’ under the control of ‘high finance’ in Polanyi’s work corresponds to the ‘jungle’ of ‘great predators’ in Braudel’s analysis. Even though Polanyi had almost no recourse to capitalism as either a conceptual category or a comprehensive unit of analysis, his ‘high financiers’ are the same powerful figures as Braudel’s ‘great predators’ or capitalists! It is for this reason that we

tend to perceive *capitalism as essentially a monetary and international phenomenon* thanks to not only Schumpeter and Braudel, but also Polanyi.

At this point, we should also re-examine the idea of ‘symbiosis’ between or ‘embeddedness’ of ‘the economic’ and ‘the non-economic’ as the survival condition of social systems. It is clear that Braudel’s three-floor pyramid involves the co-existence of ‘several economies’:

- i) The anti-market economy of capitalism,
- ii) The market economy of economic civilization, and
- iii) The infra-economy of material civilization.

Such a conception of a social system accords well with the idea of ‘symbiosis’ or ‘embeddedness’ – or the *principles of impurity and dominance*. In other words, just as we have already detected an *institutional link* between Polanyi and Schumpeter, it is also possible to realize an analogous Braudellian connection with ‘Polanyi-Schumpeter rapprochement’. Note that Braudel’s conception of capitalism-as-a-historical-world-system relies on the interaction of ‘several economies’ mentioned just above. Put differently, capitalism rests upon two *embedded* civilizations: ‘the material’ and ‘the economic’. The material civilization is a non-economic “zone of inertia”, whereas the economic civilization is “the zone of change and innovation” (Braudel, 1982: 25). This is a case of ‘harmony of disharmony’ upon which capitalism thrives. Even though Braudel makes a very decisive contra-distinction between ‘the market’ and ‘capitalism’, one major aspect of the latter resembles the former: “its unlimited flexibility, its capacity for change and *adaptation*” (Braudel, 1982: 433). As such, the *dominant* characteristic of capitalism-as-a-historical-world-system is given by ‘the market economy’ (‘the economic civilization’) over which it resides. However, the non-economic material civilization provides the *necessary impurities*, without which the market economy, and *thus* capitalism cannot survive. In other words, the symbiosis between or embeddedness of *the dominant market economy* and *the impure material life* is

a pre-condition for the existence of *capitalism-as-an-open-system*. Even though Braudel does not specifically refer to such a ‘symbiosis’, he makes it clear that the ‘normal’ or ‘general’ lifespan of a social system requires that ‘the economic’ be embedded in social life: “[T]he market complex can only be understood when it is replaced within the context of an economic life and no less a *social* life that changes over the years” (Braudel, 1982: 224).

Along this study, we argued that ‘the economic’ and ‘the non-economic’ constitute ‘the social’ as an ‘organic’ unity. Moreover, in the beginning of this section we put forward a crucial question: If ‘the economic’ and ‘the non-economic’, as the *necessary* dominant and impure elements, are together indispensable to a social system, then against what ‘the social’ is to be protected, or what is the ‘anti-social’? The answer is to be found in Braudel’s conception of capitalism as “a shadowy zone” characterized by “accumulation of power” at the expense of ‘the social’: Capitalism is “a form of social parasitism” (Braudel, 1982: 22). Therefore, *capitalism is not only anti-market, but also anti-social*. As such, the enormous social dislocation generated by the self-regulating market system in the context of the nineteenth-century civilization was basically due to the *capitalist manipulation* of the market economy and *not* due to ‘the market’ *per se*. In this vein, self-regulation implied capitalist regulation. Similarly, when the capitalist economy eroded and dismantled “the pre-capitalist framework of society” – the symbiosis between the material civilization and the economic civilization, so to speak – it “thus broke not only barriers that impeded its progress but also flying buttresses that prevented its collapse” (Schumpeter, 1942: 139). Therefore, if Braudel singled out capitalism as ‘the anti-market’, we are now in a position – thanks to Polanyi, Schumpeter and, of course, Braudel – to regard it as ‘*the anti-social*’; that is to say, *the enemy of the symbiosis between or embeddedness of ‘the economic’ and ‘the non-economic’*.

In our Introduction, we have mentioned that we will have made a distinction between the *capitalist* and the *social* versions of ‘the market’ and ‘the state’.

We hope that we have somewhat clarified our intention by now. Under ‘anti-socialism’ (i.e., capitalism), neither ‘the market’ nor ‘the state’ can be ‘social’ or human. Those two major institutions can only serve as tools of *anti-social* policies as long as the tip of the Braudelian pyramid remains as it is. In this regard, our initial distinction between orthodox economics and heterodox economics assumes a new meaning. The orthodoxy was identified with *pro-marketism* under the rubric of liberalism. It is at this point where we can identify ‘capitalism’ with *liberalism* as the almighty ideology in the service of a multiplicity of *anti-socialists* in academia and business. In juxtaposition to the liberal orthodoxy, the heterodoxy – at least in the manner we defined it – constitutes the camp of *pro-statism* *vis-à-vis* liberalism. However, ‘the state’ is also to remain ‘anti-social’ in the long term as long as the tip of the pyramid remains ‘anti-social’. It is in this vein that we have been insisting on drawing attention to the ‘myopia’ on the part of the heterodoxy. Heterodox proposals of state-led policies as opposed to market-oriented solutions of the orthodoxy have come to imply an acceptance of ‘market-state dichotomy’ as a premise. In other words, the heterodoxy seems to have accepted to play the game in accordance with *anti-social* rules. Throughout our construction of the IIPE-perspective, we have tried to show that the liberalism-originated ‘market-state dichotomy’ is a false premise. Unfortunately, the heterodoxy has also subscribed to this false liberal premise insofar as it tried to challenge the orthodoxy by means of state-led policy proposals. That is to say, the heterodoxy has chosen a wrong target of attack. In the context of our critical perspective, we tried to demonstrate that *the real dichotomy is not between the market and the state*. In contra-distinction, *the real dichotomy is between capitalism and society*. Therefore, we still insist that a truly heterodox challenge should directly target capitalism (so as to eliminate economic/political power differentials), while trying to protect the symbiosis between ‘the state’ and ‘the market’.

At this point, let us return to our analysis of Braudel’s pyramid so that we can enforce our case further. As is clear now, one major implication of Braudel’s

pyramid is that the transformation from the middle (economic life) towards the top floor (capitalism) involves ‘human design’ rather than ‘spontaneity’. The highest floor corresponds to the commanding heights, where capitalists hold the keys to long-distance trade and communication networks. Being “sufficiently informed and materially able to choose the sphere of its action”, the typical capitalist has been able to “bend the rules of the market economy” (Braudel, 1982: 400-1) regularly and quite consciously. In other words, it is the very mentality of the capitalism “to direct and control change in such a way as to preserve its hegemony”. The operation of the market economy has been invariably accompanied by an artificially capitalist influence on the way to establishing and maintaining nation- and world-wide market economies. Therefore, a crucial warning to the Austrians and liberals logically follows: ‘The market’ may owe its origins to complex *natural* processes involving no human calculation and design. But some ‘powerful circles’ are inclined to engage in truly *artificial* practices to paralyze this spontaneous order. The agents within such powerful circles are commonly called ‘capitalists’ in Braudel’s analysis!

To be sure, this major aspect of Braudel’s work is in sharp contrast with the viewpoint of Austrians and liberals. In this connection, Braudel’s analysis is also indicative of the impossibility of ‘pure’ *laissez-faire*. ‘Let them do, let them pass’ may well be interpreted as follows: Let capitalists stampede on the market as they please! Put differently, if the capitalist mode of action is not controlled or regulated, capitalists tend to give up competing, and engage in monopolistic and speculative practices. *Laissez-faire* relies on competition, but competition can be maintained only through regulation of and control over the market: “Price control … has always existed and still exists today.... In theory, severe control over the market was meant to protect the consumer, that is competition” (Braudel, 1982: 227). In practice, however, the capitalist mode of action has always aimed at and succeeded in getting rid of such regulation and control.

Up to now, we have identified capitalism as a monetary and international phenomenon with anti-marketism and anti-socialism. Now, it is time to add a new attribute to capitalism: an inherent tendency to concentrate market power; *i.e.* monopolization/oligopolization. We should link the propensity of capitalism to establish and maintain monopolies/oligopolies with its privileged relations to ‘the state’. At this point, one may identify two opposing functions of ‘the state’ in Braudel’s analysis: “the state as regulator, as protector of ‘competition’” and “the state as ‘guarantor’ of the very monopolies” (Wallerstein, 1991b: 360). In this sense, it is the capitalist mentality *per se* that has preferred and still prefers to *get rid of* the ‘truly free market’. On the part of the capitalists, there are two ways to achieve this: Either minimize the role of the ‘regulator state’ (*viz.*, maximize the role of the ‘guarantor state’) or, *more radically*, convert the ‘regulator state’ into a ‘guarantor state’ *permanently*. In this vein, we interpret the neoliberal 1980s as the minimization of the ‘regulator state’ – presumably a consciously-built procedure to pave the way for dictating the ‘global governance model’ in the 1990s onwards. It is, thus, likely that ‘governance’ is an attempt to convert the ‘regulator state’ into a ‘guarantor state’ permanently. We shall clarify this issue further in our concluding chapter. For the time being, it suffices to say that in order to “bend the rules of the market economy” (so that hugely profitable businesses can be established and maintained by concentrating into monopolistic/oligopolistic structures), what capitalists badly need is ‘unchecked’ markets. So long as the capitalist mentality prevails over the market economy, ‘true competition’ can by no means be maintained without *genuine* state intervention – ‘genuine’ meaning *non-capitalist*. In this connection, it would be interesting to carry out a mental exercise as to what Adam Smith would think of the implications that we have derived from Braudel’s analysis. To be sure, Smith had lived at a time when it was somewhat early to directly pronounce such terms as ‘capitalist’, ‘capitalism’ or ‘capitalist mentality.’ However, only after we take Braudel’s standpoint seriously, only then can we find that, in the following excerpt, the father of economics was telling about a mentality of a similar family:

*The interest of the dealers . . . in any particular branch of trade or manufactures, is always in some*

respects different from, and even opposite to, that of *the publick*. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the publick; but to narrow the competition must always be *against* it, and can only serve to enable dealers, by raising their profits above what they would normally be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens (Smith, 1776, Vol. 1: 267, emphases ours).

It is our contention that the term ‘the publick’ used by Adam Smith as above corresponds more or less to what we have been meaning by the term ‘the social’ along this study. We made a contra-distinction between ‘the social’ and capitalism so as to conceptualize the latter as the enemy of the former. Smith must also have a similar contra-distinction in mind when he counterpoised the interest of ‘the dealers’ against the interest of ‘the publick’. To be sure, it is all the more interesting to find a parallel between us and the alleged father of liberal economic thought, which we have been trying to refute all along the preceding pages. With this in mind, let us now return to ‘money’ under capitalism, by which we started to discuss Braudel’s pyramid.

While Braudel defines a market economy in terms of *harmonious fluctuation* of prices, he identifies capitalism – like Schumpeter – with its ability to adapt to varying circumstances:

Let me emphasize the quality that seems to me to be an essential feature of the general history of capitalism: its unlimited flexibility, its capacity for change and *adaptation*. If there is, as I believe, a certain unity in capitalism, from thirteenth-century Italy to present-day West, it is here above all that such unity must be located and observed (Braudel, 1982: 433).

But where on earth has capitalism been able to find the tool to preserve its unity for about seven centuries? How was it so successful to adjust and by means of what? Braudel gives us the hint in two ways:

Money only becomes established where men need it and can bear the cost. Its flexibility and complexity are functions of the flexibility and complexity of the economy that it brings into being (Braudel, 1981: 439).

The more developed an economy became, the wider the range of monetary instruments and credit facilities it employed. And in the wider international unity that money represented on a world scale, each society had its place, some favored, some backward, some heavily handicapped. Money gave a certain unity to the world, but it was the unity of injustice (Braudel, 1981: 477).

Capitalism-as-a-historical-world-system exhibited a protracted survival thanks to the utilization of money as a ‘power pivot.’ The role of money in the *market economy* is to serve to the ‘reciprocity of needs’ as a medium of exchange that facilitates and accelerates transparent and competitive transactions. However, money under *capitalism* turns out to be a tool of ‘power accumulation’ to be employed in large-scale businesses and long-distance transactions, which yield reward in the form of speculative, monopolistic profits. But, how were the capitalists time-and-again so successful in maintaining their hierarchical superiority to shape their sphere of action at will, often at the expense of the non-capitalists? Interestingly enough, the search for an answer to this question brings about another difference between Braudel and the Austrians/liberals.

In the light of Braudel’s analysis, one may argue that the transparent market with fair and free competition (*i.e.*, without capitalism) actually harbors a reasonable level of uncertainty. Austrian insistence that speculation is a virtual ability diffused within the context of market process becomes trivial in Braudel’s scheme. Once the abode of speculation and calculation is singled out as capitalism (*i.e.*, the anti-market), the Austrian attribution of uncertainty to the market ceases to be valid. At least some market knowledge is not tacit. However, it is rendered tacit by the very capitalistic practices. Even since the 15<sup>th</sup> century, capitalists have been able to manipulate the status quo in accordance with their interests. Converting the ‘regulator state’ into a

‘guarantor state’, capitalists have always managed to get rid of control and competition while establishing a coalition with the state power. In turn, they were incessantly successful in bending the ‘spontaneous’ rules of the fairly and freely competitive market economy through converting competition into monopolistic and privileged practices; thus through converting the legible market data into the ‘tacit’ knowledge of the privileged few:

In the course of this book, the reader will have noticed that reference is often made to the underlying notion of gambling, risk-taking, cheating; the rule of the game was to invent a counter-game, to oppose the regular mechanisms and instruments of the market, in order to make it work differently—if not in the opposite direction (Braudel, 1982: 578).

In this respect, the market economy under capitalism has hardly ever been a true process of discovery for all participants. By using money as a means of coercion at the commanding heights, capitalists have invented their own native language, which the ‘true’ market process could never understand and translate:

[C]urrencies are languages. . . : they make dialogue both necessary and possible and they only exist when the dialogue itself exists. . . . To hold a conversation one has to find a common language, some common ground. The merit of long-distance trade, of large-scale commercial capitalism, was its ability to speak the language of the world trade. . . . Long-distance trade was the source of all rapid ‘accumulation’. It controlled the world of the *ancien régime* and money was at its command, following or preceding it as necessary. . . . Money too is a means of exploiting someone else, at home or abroad. . . (Braudel, 1981: 440-1).

Hence, the market as a discovery process could never be as superior as the Austrians and the liberal ideologists supposed. However, ‘the state’ has usually been against ‘the market’, as the liberals rightly insisted. But, ‘state interventionism’ as such has been against ‘the market’ not because of a tendency for central planning; but because of state’s being usually hand-in-hand with capitalism. “Capitalism only triumphs when it becomes identified with the state, when it is the state” (Braudel, 1977: 64). Under these

circumstances, the market system under capitalism implies a refracted conversion of individual self-interests into the privileged well-being of the few. Indeed, the market has usually implied the maintenance of capitalistic privileges. As we argued elsewhere (Özveren and Özçelik, 2001), the market is like a “neutral container”. What it actually contains under the capitalist regime is a set of economic power differentials. Such differentials are dictated to the market process prior to the operation of the process. The market thus continues to reproduce such differentials.

Consequently, an irony with respect to Braudel and the Austrians/liberals deserves to be the concluding paragraph of this sub-section. For Braudel, the distinction between ‘the market’ and ‘capitalism’ finds expression in the sharp contrast between ‘the natural’ and ‘the artificial’; indeed, between ‘the good’ and ‘the bad’. For the Austrians/liberals, however, capitalism is almost the mirror image of the natural and spontaneous market process. In the final analysis, thus, Braudel would not reject the liberal motto that spontaneity is superior to human design. Of course, it matters a great deal what is truly natural and what is not.

## CHAPTER 6

### BY WAY OF CONCLUSION

One premise in writing this thesis was to accentuate the significance of the institutional dynamics of capitalism along with an effort to set forth a complementary framework in juxtaposition to class-based analysis. We consciously avoided participating in orthodox and heterodox sides (as well as liberal and Marxist sides) so as to be able to enrich the existing set of social-scientific analytical tools. Our approach relied on a dichotomy-based classification in the historical context of socio-economic thought, in which we identified the proponents of ‘state-led’ and ‘market-oriented’ theories/policies as the two sides of the same ‘double movement’ – a Polanyian concept. Polanyi conceptualizes the ‘double movement’ in terms of: i) the conscious efforts of liberal theorists and practitioners to construct and maintain a self-regulating market system, and ii) the ensuing efforts of the large segments of society to protect themselves from the dislocation and degradation resulting from such self-regulation. In the context of this ‘double movement’, market-oriented tasks are accomplished by making use of ‘the liberal state’, whereas social self-protection in terms of state-led policies is carried out by making use of ‘the social state’. The liberal state was the major apparatus in building up and upholding a self-regulating market system at the level of the world-economy during the nineteenth century. As the ‘nineteenth-century civilization’ started to collapse with the outburst of the First World War, state-led social-protective measures and planning practices were undertaken all along the 1920s and

1930s together with the rise of ‘Keynesian Revolution’ as a response to the Great Depression of 1929. Following the end of the Second World War, ‘the social state’ replaced ‘the liberal state’ of the nineteenth-century civilization and took the form of ‘welfare state’ in advanced countries and ‘developmental state’ in backward countries during the ‘planned’ Golden Age of managed capitalism in 1950s and 1960s. Then, the world-economy entered a phase of systemic crisis during the 1970s, after which ‘the liberal state’ came back as of the 1980s while putting an end to ‘the social state’ of the previous period. Nowadays, we live in the ‘age of governance’, in which, we claim, a new type of state – ‘the state of governance’ – which is ‘institutionally’ different from both the liberal and social states, is being constructed piecemeal by the ‘commanding heights of the world-economy’.

In this scheme of things, we set to work in order to demonstrate that: i) ‘Development’ is all the more difficult in the face of contemporary liberal milieu at the level of the capitalist world-economy, and ii) An ‘institutionalist’ international political economy perspective is one of the most appropriate frameworks to analyze capitalism in the age of governance. In summarizing our thesis in the Introduction, we gave hints of our contention and intention. In the following second and third chapters, we elaborated the issues of ‘development’ and ‘governance’ so as to submit an epitome of politico-economic theory and practice at world-economy level of analysis from 1945 to 2005. We analyzed roughly the first half of this period as a case of state-led capitalist compromise between the First World Keynesianism and Third World developmentalism. The second half of the same period was then interpreted as a case of market-oriented ‘counter-revolution’ to dismantle and consume the state-centered ‘impurities’ created within the previous period. With this sixty-year-old politico-economic setting in mind, we then delved into a historically conscious analysis of capitalism in the fourth and fifth chapters. It is in these core chapters where the essence of our thesis is to be found in the form of a political economy perspective with ‘institutionalist’ ingredients. By means of the historical perspective that we have elaborated, we have now reached the

final stage to put forward some concluding – and of course not *conclusive* – remarks. In the case of writing conclusions to unconventional (perhaps, even controversial) texts such as this one, we share the following opinion of Braudel:

I am of the view that the classic conclusion, in which a book's central arguments are rehearsed imperturbably for one last time, as if closing the door on everything that has been said, is inappropriate in a work of history, which can never claim to be complete, to have told the truth once and for all. At the end of such a lengthy undertaking, I feel rather the need to throw open the doors and windows, to give the house a good airing, even to go outside it. Having constructed as I went along my conceptual framework which ought to be applicable to more than the pre-industrial modern period, . . . I should rather like to launch it on the waters and in the setting of another period. And while we are at it, why not take the present day as that period? Why not, that is, take the realities we have ourselves seen and felt? This would take us out of the magic world of retrospective history and into the living landscape which needs no reconstruction, but lies before us in all its richness and confusion (Braudel, 1984: 619).

As it will be clear towards the end of this concluding chapter, we shall complete our thesis with a prognosis regarding the future of the “living landscape” that “lies before us in all its richness and confusion”. Therefore, one can regard the preceding five chapters as an attempt to come up with a social-scientific *diagnosis* on the nature of capitalism as a historical world system, whereas the present chapter involves a *prognosis* relying on that diagnosis. In this regard, we should start to conclude with issues of ‘development’ since it constitutes an integral part of our prognosis.

‘Development Economics’ is an artificial construct that has rested on the premises of the post-war order after 1945. It has been put forward and maintained as a recipe for the specific problems of the Third World. However, we prefer to take ‘development’ as a more *historical* and *world-wide* phenomenon. We do not consider ‘development’ merely as a post-war

emergency on the part of the Third World. We maintain that ‘development’ was an omni-present problem, the origins of which can be traced back to ages well before the Second World War. Even the mercantilists as well as the eighteenth- and nineteenth-century classical political economists were well aware of and sensitive to complicated issues that were essentially developmental. Moreover, three years before the First World War, Joseph Schumpeter had conceptualized ‘development’ as a general subject-matter within the economic system as a whole, and not as a specific problem facing the less-developed segments of the system (Schumpeter, 1911).<sup>66</sup> It is in this vein that we reject to confine our analysis of ‘development’ to the Third World that is said to have emerged after 1945. For us, ‘development’ is not a reserve of the Third World, but the resultant of the evolution of the centuries-old capitalist world-system.

At the world-economy level of analysis, we conceptualize *genuine* development as the absence of significant socio-economic differences among countries. For instance, as long as large ‘income inequalities’ prevail at world-scale, we cannot speak of genuine development even if some previously less-developed countries may have achieved to enter the ranks of developed countries. So long as a First World and a Third World exist side by side, the sporadic development experiences on the part of a few countries cannot be regarded as genuine development. In other words, we conceptualize genuine development in the form of a ‘great transformation’ of the existing structures of the capitalist world-system. Other ‘non-genuine’ types of development do not comply with our ‘unit of analysis’, which is capitalism-as-a-historical-world-

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<sup>66</sup> As is well known, Schumpeter always considered ‘innovation’ as the major source of development. Interestingly, in his 1911 book, he attributed innovation to small firms within competitive industries. Then, in his 1942 book, he attributed innovation to oligopolistically large firms with research and development capabilities. Indeed, the ‘open-systemic’ economic dynamics changed considerably from 1911 to 1942. For an interesting discussion of this “fundamental change of opinion” on the part of Schumpeter, see Özal (2003: 242). Our thesis becomes all the more considerable in connection with Özal’s paper. Özal (2003) delves into the two-sided interaction between socio-economic reality and socio-economic theory with an emphasis on the unavoidable ‘complexity’ to be found in ‘open systems’. Özal’s paper specifically deals with Polanyian and Schumpeterian ideas (as well as Keynesian ones) as cases of ‘open-systems’ thinking, which we also utilized – albeit in a different context – as an institutionalist tool of perspective-construction in the previous two chapters.

system. Hence, with this framework of World-Systems Analysis as our source of inspiration, we are in a position to declare that the countries that exhibited developmental success in the last sixty years (such as Japan, South Korea, Taiwan etc., and more recently China and India in the making) basically contributed to the development of the capitalist world-system. In the meantime, the overwhelming majority of the Third World countries – in *relative* terms – remained as they are (or, some have become even worse-off). We firmly believe that the idea of ‘development of underdevelopment’ still prevails in our day. It is the essence of capitalism as its survival condition to simultaneously involve ‘development’ and ‘underdevelopment’. At world-economy level of analysis, capitalism will survive so long as ‘development’ and ‘underdevelopment’ co-exist side by side. Therefore, *genuine* development is a matter of putting an end to the ‘symbiosis’ between the First World and the Third World, presumably by creating a non-capitalist world outside (or in the place) of the capitalist world-economy. This is, of course, too formidable a task, as especially compared to the state-led policy alternatives proposed by heterodox economists such as Ha-Joon Chang and Ilene Grabel, which we discussed in detail in the second chapter. However, as the careful reader should have noticed, we insisted that a coalition between First World Keynesianism and Third World developmentalism was witnessed in the few decades following the Second World War – the Golden Age of capitalism that merely and eventually paved the way for a new era of far-reaching liberalism.

In this regard, our contention is that conventional heterodox policy proposals may also pave the way for an ‘unintended’ coalition between the seemingly benevolent ‘governance’ paradigm (on the part of the First World) and the ‘developmental’ alternatives (on the part of the Third World). Our thesis is that the likelihood of such a coalition is all the more unfortunate at a time when incipient conditions are emerging towards the *collapsibility* of capitalism as a historical world-system. At this point, we are aware that even the most radical readers of ours may find our claim too ‘utopian’.

First, many colleagues may object to our thesis in that it is, by now, impossible to accomplish a task such as destroying capitalism as a historical world-system. However, our argument is that the ‘collapsibility’ of capitalism nowadays implies the ‘spontaneous’ emergence of a capitalist stage of *self-destruction*, which, in turn, may not necessitate a world-wide ‘social’ revolution. We shall clarify this prognosis of ours after our concise discussion of developmental possibilities (or, more correctly, impossibilities) in front of the Third World countries. At this point, we should note that our thesis does not imply the uselessness of anti-capitalist/anti-liberal movements at national or international levels. What we argue is that, irrespectively of the existence or intensification of such movements, capitalism as a historical world-system has an inherent and spontaneous tendency to collapse eventually. Of course, conventional anti-systemic movements do possess the potential to facilitate the demise of capitalism. The problem is how to respond to the collapsibility dynamics of the capitalist world-system by way of the global ‘governance’ project. That is to say, such movements should re-structure themselves in accordance with the ever-evolving structures of the world-system. Otherwise, their potentiality to undermine the system may turn out to be insignificant or even unintendedly counter-productive. All in all, the collapsibility of capitalism may have required a proletarian revolution under nineteenth-century circumstances, whenby the internal contradictions of the system came *merely* from the relations and forces of production within the ‘infrastructure’. However, such a revolution may not be required under twenty-first-century circumstances, if the collapsibility dynamics are now emanating *also* from the *institutional* ‘superstructure’. It is all the more presumable to expect that contemporary capitalism is much more likely to collapse as compared to its nineteenth-century version. Therefore, the ‘social subject’ that would effectively destroy the ‘capitalist object’ must have also changed in the course of time from the nineteenth century to our day.

Secondly, our critical colleagues may also reject our conception of *genuine development*. They may insist that ‘development at national level’ is better than

‘no development at all’. Hence, they may consider the conventional alternatives of state-led policies as useful and workable possibilities for at least some countries to escape the vices of underdevelopment. They may be quite right. Nevertheless, we claim that such development will be at the expense of the rest of the Third World since such policies bear the earmarks of contributing to the ‘development of underdevelopment’. Such state-led policy alternatives, which are specifically designed to be implemented at national level within the context of the capitalist world-system, implicitly or explicitly, take the worldly phenomenon of ‘income inequality’ for granted. *At least on theoretically moral grounds*, our sympathies cannot be with the idea of development at the expense of ‘the less-developed’. We believe that anyone, who subscribes to this idea implicitly or explicitly, not only accentuates the survival dynamics of capitalism, but also backs the liberal thesis. Let us clarify this point.

Liberals – most notably Friedrich von Hayek and Robert Nozick – have a tendency to take ‘income inequality’ for granted. They see it as the unavoidable cost of economic growth and development. Indeed, such versions of the liberal thesis go so far as to advocate the idea that ‘income inequality’ is necessary for increasing the possibilities of innovativeness and investment, which, in turn, are the main sources of economic growth/development. Yet, “[f]or whom is development being engineered”? The ready-made liberal answer is: “for future generations” (Rapley, 2002: 98-99). As far as this answer is concerned, it seems to us that a further qualification is required: For the future generations of the First World! Liberals have conventionally criticized the allegedly socialist practices of the twentieth century on account that ‘theory does not work in practice’. As such, the liberal thesis made the impression that – as if – liberalism has practically worked well and for the sake of humanity as a whole. In constructing our institutional political economy perspective, we tried to draw attention to the hidden dynamics of the liberal ideology in terms of its potentiality to yield social chaos/crisis as well as world-wide wars. If it is merely chronological coincidence that the nineteenth-century liberalism was

followed by the politico-economic chaoses/crises (in the form of one Great Depression and two World Wars) during the first half of the twentieth century, then we must confess that we may be wrong.

Nevertheless, if there is some historical-systemic correlation between liberalism and world-wide turbulences, then even the liberals should be much more cautious in their uncompromising attempts to dictate the virtues of liberalism. So long as they keep on ignoring the social dislocation and degradation generated by the self-regulating market system, ‘the only alternative’ on their part after every socio-economic catastrophe is to reproduce ‘conspiracy theories’ concerning the inefficient and cumbersome structures of ‘the state’. This liberal insensitivity concerning the anti-social consequences of a self-regulating market system is indeed the very source of what we termed as ‘Hayek-Polanyi polarity’.

Only after we realize that the nineteenth-century liberalism constituted a ‘counter-revolution’ against the state-led mercantilism of the preceding centuries, only then can we honestly evaluate the neoliberalism of the post-1980 period in terms of its prospective consequences in the twenty-first century. And only then can we engage ourselves in a *truly* anti-liberal effort, which is to involve a world-systems point of view that de-mystifies the state-led and market-oriented policies as two sides of the same capitalist coin. Otherwise, we cannot escape the liberal-capitalist fate, along which we are bound to repeat calls for developmental paths that had already been worn out at many places for many times. Hence, in juxtaposition to the expectedly normal critiques of our thesis from the liberal camp, our ‘anti-liberal’ critics should also think twice. They should do so because they may be contributing to the sustenance of capitalism as a historical world-system in two ways: i) In their uncompromising subscription to *non-radical* state-led policies *vis-à-vis* ‘the market’, and ii) In their implicit or explicit subscription to the truly liberal idea that ‘income inequality’ is an incurable yet useful disease at especially the level of the world economy. From our point of view, ‘income inequality’ is no less

than a fatal epidemic that spreads faster in the wake of financial purification at the level of the capitalist world-economy.

In the preceding chapter, we conceptualized capitalism essentially as an *international, financial* (monetary) and *anti-social* phenomenon. With this in mind, we answer the following question posed by Braudel with a blatant “yes”:

Is not the major obstacle facing today’s developing nations the international economy in its existing form, and the way in which it divides and distributes tasks – something on which this book has already laid if anything too much emphasis? (Braudel, 1984: 542).

It is in this respect that we disagree with the conventionally heterodox state-led developmental proposals, which are claimed to be applicable “*even without radical changes in the global environment*” (Chang & Grabel, 2004: 204). So long as the *status quo* prevails in the global environment, such developmental policies can be employed only by a minority of the Third World countries that possess relatively robust state structures and traditions. At a period when capitalism has been once again passing through quite difficult times since the early 1970s, such conventional developmentalism (in the face of the ‘global governance model’ dictated by the First World) may unintendedly come to terms with the resurgence efforts on behalf of capitalism – in an analogous manner that Keynesianism and developmentalism revived capitalism in the post-war period.<sup>67</sup> In the final analysis – or in the *longue durée*, so to speak –

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<sup>67</sup> At this point, this seemingly strong argument of ours needs some further explanation. And to do so, we should reserve some space to consider the concept of ‘embedded liberalism’ as introduced in the early 1980s by John Gerard Ruggie to describe the politico-economic specificity of the Golden Age following the Second World War. Utilizing the Polanyian concept of ‘embeddedness’ as his source of inspiration, Ruggie (1982) argued that the success of postwar international economic liberalization was the consequence of a *compact* between the state and society to mediate its destructive effects at national level. While national governments were given the autonomy to pursue domestic economic goals, international markets were still expanded in a regulated manner. In this sense, postwar ‘embedded liberalism’ was a case of *compromise* between: i) the extreme freeness of markets at international level, and ii) the extreme protectionism at national level. Here, *specificity* of ‘embedded liberalism’ is to be understood *vis-à-vis*: i) the nineteenth century liberalism as a case of extreme freeness of international markets, and ii) the consequent interwar period as a case of extreme domestic protectionism. Thus, for Ruggie (2003), the period from the nineteenth century liberalism to the postwar ‘embedded liberalism’ makes up “the story of how the capitalist countries learned to reconcile the efficiency of markets with the values of social

conventional developmental policies, which do not envisage “radical changes in the global environment”, bear the potential of doing more harm than good to the majority of the Third World countries, which are bound to remain underdeveloped in the existing context of capitalism as a historical world-system. This has been the secular trend for many centuries along the crisis-driven lifeline of capitalism:

If so, are not the day-to-day remedies proposed to meet the crisis completely illusory? For the reversal of the secular trend is a structural crisis which could only be resolved by thorough-going structural demolition and reconstruction (Braudel, 1984: 618).

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community that markets themselves require in order to survive and thrive”. However, as far as our times are concerned, the key ‘mediator’ role played by governments during the age of ‘embedded liberalism’ has been replaced by neoliberal priorities. What we have been witnessing from the early 1980s is the increasingly pre-dominant liberalization in international trade and finance *at the expense of* domestic/national autonomy of economic policy-making on the part of governments. Hence, the contradictory aspect of our times arises from this *trade-off* between economic globalization and domestic policy autonomy: “What is needed instead--for the sake of America and the world--is *a new embedded liberalism compromise*, a new formula for combining the twin desires of international and domestic stability, one that is appropriate for an international context in which the organization of production and exchange has become globalized, and a domestic context in which past modalities of state intervention lack efficacy or legitimacy” (Ruggie, 1997, emphasis ours). Now, given this background concerning Ruggie’s contribution, which has had a particular influence on many scholars of political science and international relations, we would like to assess his efforts as a warning to the ‘commanding heights of the world-economy’, which have been obsessed with ‘good governance’ since the early 1990s. As we argued in section 3.5, ‘good governance’ is an endeavor to make capitalism survive by ‘making it good’. We believe that Ruggie also wants to do the same, albeit in a different way. ‘Good governance’ can be interpreted as a global attempt towards establishing the supremacy of ‘the market’ permanently by altering the institutional substance of ‘the state as we know it’. However, in our opinion, Ruggie’s call for “a new embedded liberalism compromise” draws attention to the ultra-liberal aspects of ‘good governance’. From this point of view, a new embedded liberalism compromise can be considered as the true survival condition for contemporary capitalism. Therefore, we believe that Ruggie’s anti-neoliberal attitude towards the sustainability of the existing world-system has two important implications for our thesis. First, ‘good governance’ may not be the correct recipe for the self-resurgence of capitalism, which has been experiencing a structural crisis since the 1970s. Indeed, ‘good governance’ has the potential to have self-defeating consequences on the part of capitalism as a historical world-system. Secondly, the correct recipe for the self-resurgence of capitalism may be “a new embedded liberalism compromise”, which should be re-constructed after the mirror image of the postwar ‘embeddedness’ of the First World and the Third World in the form of a coalition between Keynesianism and developmentalism; of course with the inclusion of necessary modifications as required by the new global circumstances. All in all and in this vein, we argue that the state-led policy proposals of the conventional heterodoxy (as best represented by Chang & Grabel) may unintendedly come to terms with the resurgence efforts on behalf of capitalism – in an analogous manner that Keynesianism and developmentalism revived capitalism in the postwar period.

In this connection, we should draw the attention of the reader to the following observation of ours in the light of Arrighi (1994): The so-called ‘first globalization wave’ (in the form of world-wide financial ‘purification’ that had started as of the 1870s) marked the beginning of the final stage of UK-led capitalist world-economy. Similarly, the so-called ‘second globalization wave’ (that started as of the 1970s and again accompanied by world-wide financial ‘purification’) may well mark the beginning of the final stage of US-led capitalist world-economy. “At all events, every capitalist development of this order seems, by reaching the stage of financial expansion, to have in some sense announced its maturity: it was a sign of autumn” (Braudel, 1984: 246). If we trace back the most recent financial purification to the eve of oil crises of the 1970s, we may well consider the existing world-economy to be entering its “winter” phase nowadays. Indeed, the secret of the future of our times is hidden in the asperities of the forthcoming winter (Köse & Öncü, 2003: 138).

From Third World’s standpoint, capitalist ‘winter time’ is all the more benign to cease underdevelopment and to start a ‘great transformation’ at the level of the world-economy. The first point is that the Third World must not confuse a *true* ‘winter’ with a *fictitious* ‘summer’, as it did in the few decades following the Second World War. If then the Third World almost as a whole did not subscribe to the capitalist development path of Keynesian/developmentalist consensus, we would be most likely living in a very different world today – in any case in a better world than the predictable one which ‘war-friendly’ US-led neoliberalism/neoconservatism may yield prospectively. The second point is that the Third World has already demanded the right to participate in world markets under fairer conditions. Voiced before the United Nations General Assembly in 1974, that non-radical demand for a New International Economic Order (NIEO) was coolly rejected by the First World. This is an important lesson of history. Rather than ‘reclaiming development’ within the existing rules of the capitalist game, the Third World should be alert enough to detect the correct time to attempt to change those very rules: “[I]f the Third World is to make any progress it will somehow or other have to break down the existing

international order" (Braudel, 1984: 542). The leaders, policy-makers and the electorate of the Third World countries should always keep in mind that 'Third World' is not an 'infant', the 'parent' of which is the Second World War. The Third World is as old as 'money and capitalism', which have together come to form a historical world system for many centuries:

Money too is a means of exploiting someone else, at home or abroad, and accelerating exchange. A 'synchronic' view of the world in the eighteenth century bears this out to the point of obviousness. Vast areas and millions of people were still in the age of Homer when the value of Achilles' shield was calculated in oxen. Adam Smith was struck by this image: 'The armour of Diomede', says Homer, 'cost only nine oxen; but that of Glaucus cost an hundred oxen.' An economist today would unhesitatingly call these simple types of humanity a Third World: *there has always been a Third World. Its regular mistake was to agree to the terms of a dialogue which was always unfavourable to it. But it was often forced to* (Braudel, 1981: 441-2, emphasis ours).

Capitalist 'force' cannot be eternal. Nothing is eternal. We should always recall that "[h]istory teaches nothing, but only punishes for not learning its lessons", as the late Russian medievalist Vassily Kliuchesky once warned (cited in Heilbroner, 1993: 13). In this connection, we argue that the global 'governance' model brings with it one bad and one good news for the Third World.

The bad news is that even individual 'independent' development strategies may turn out to be impracticable in the wake of a possible and eventual success of 'governance' paradigm. In this respect, Third World countries were luckier in the first half of the post-war period, when a new world was being constructed out of the ruins of the old one. We insist that whether the new world would constitute a dominantly capitalist or non-capitalist system depended on how the Third World behaved. At a time when the Second World was trying hard to maintain a non-capitalist system, the Third World countries may have all the more easily entered a similar or different but essentially non-capitalist path to

development. Not necessarily relying on the USSR-type of socialism, the Third World could unite in the context of a truly non-capitalist consensus. Then the Second and the Third Worlds may have been able to initiate a truly 'great transformation'. This could have proven to become a mutually beneficial non-capitalist developmental agenda, by way of which: i) the Second World could find the invaluable opportunity to keep in a non-capitalist contact with the *overwhelming majority* of the countries in the world economy, and ii) the Third World could find the invaluable opportunity to build up and improve its industrial infrastructure by the help of a non-capitalist 'know-how'. Unfortunately, we live at a time when the liberals have already announced 'the end of history'. In the near future, every part of the Blue Planet may be governed by the so-called transnational corporations, for which the 'self-regulating market system' at global level is indispensable. It is in this vein that the 'commanding heights' of the capitalist world-economy are nowadays insisting on 'governance'. Politically independent 'regulatory' institutions along with the loosely defined agencies of 'civil' society are 'revolutionizing' the conventional structures of 'the state', which are replaced by 'entrepreneurial' units so as to form a competitive environment among public institutions. By way of the 'marketization' of traditional state structures from within, 'the state as we know it' is being transformed into 'the state of governance'. Within the context of such a world of 'governance', it is all the more formidable to adopt and implement 'independent' developmental policies on the part of the Third World countries. 'Independency' was a feasible alternative during the postwar period since the First World itself was also too busy to revive capitalism by means of the conventional structures of 'the state'. Then 'the state as we know it' should have remained as it was. That is to say, the circumstances in the first half of the post-war period necessitated that the world-system be maintained by utilizing 'the state' as 'non-flexible government'. In turn, however, the contemporary circumstances necessitate that the system be rejuvenated by de-constructing 'the state' into 'flexible government'.

Now the good news: If history repeats itself, it does so necessarily with *qualitative* differences. If the world-systemic financial purification that started in the second half of the post-war period is nowadays culminating into a system-wide structural crisis, then what is emergent is *again* the collapsibility of capitalism along with the likelihood of a ‘great transformation’. The recent difference with respect to the post-1945 period is that the ‘commanding heights’ of the world-economy are subscribing to put a decisive end to state-leadership in the name of ‘governance’. From their standpoint, this is apparently ‘rational’. Indeed, it has always been in the interest of capitalists to run after their own self-interests. Liberalism, in this regard, has always provided them with the ideological weapons to fight against the opponents of capitalism. A permanent orthodox victory of the capitalist market over the ‘anti-market’ theories and practices of the heterodoxy seems to be urgent at a time when ‘signs of autumn’ have already matured. To convert the forthcoming ‘winter’ into a ‘fictitious summer’ is a matter of ‘governance’. As such, we have every reason to consider ‘governance’ as a liberal/capitalist strategy of transition from ‘the collapsibility’ to ‘the revival’ of capitalism once again. However, our thesis is that *‘governance’ is bound to become the victim of its own success*. The success of global governance model is likely to result in social insecurity and catastrophe at the level of the capitalist world-system. Such a ‘global’ turbulence may result in unprecedentedly devastating chaoses at all levels of the world-system – economic, political, military and cultural. Deprived of social safety nets and protective mechanisms that pertain to ‘the state as we know it’, large segments of ‘globalized’ society may engage themselves in an unprecedented ‘social explosion’. For the time being, we can only say for sure that the discretion on the part of the Third World will be decisive, if the ‘globalized’ society explodes in the wake of the governance victory. It remains yet to be seen whether this global social explosion will be channeled into: i) the construction of a ‘great transformation’, or ii) the sustenance of the capitalist ‘secular trend’. The matter of primary import is *how* the anti-systemic ‘agencies’ will behave in the face of such systemic collapsibility. That is to say, it is a matter of secondary import *who* these

agencies will be. If the system has a ‘spontaneous’ tendency to collapse, ‘the subject’ that will facilitate self-destruction may also become the *systemic* ‘agencies’ *per se*.<sup>68</sup> To be sure, in that case, the anti-systemic ‘agencies’, should re-define, re-structure and re-organize themselves in accordance with this *new institutional* dynamics of systemic collapsibility.

Now, let us put an end to this study by submitting the essence of our thesis as to the reason why ‘governance’ efforts spontaneously pave the way for the eventual collapse of capitalism as a historical world-system. In doing so, we

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<sup>68</sup> In this connection, the careful reader who is familiar with *The Long Twentieth Century* of Giovanni Arrighi (1994) should have noticed an analogy between our thesis and one of his three possible scenarios on the future of capitalism. Arrighi (1994: 355-356) completes his grand narrative by submitting “three possible outcomes of the ongoing crises of the US regime of accumulation”. The common outcome in all the three scenarios is that capitalist history somehow comes to an inevitable termination point. In the first possible outcome, the capitalist world-economy may be converted into a “truly global world empire” by the conscious efforts of the US, which has acquired excessive and unprecedented state- and war-making capabilities despite its loss of the economic leadership of the world-system. Arrighi’s second possible outcome is the one which is *analogous* to our thesis. More correctly, we can regard our thesis as a ‘variation on the theme’ of Arrighi’s “world market formation”. Let us fully cite Arrighi’s second scenario: “Second, the old guard [US] may fail to stop the course of capitalist history, and East Asian [and presumably also Chinese] capital may come to occupy a commanding position in systemic processes of capital accumulation. Capitalist history would then continue, but under conditions that depart radically from what they have been since the formation of the modern inter-state system. The new guard at the commanding heights of the capitalist world-economy would lack the state- and war-making capabilities that, historically, have been associated with the enlarged reproduction of a capitalist layer on top of the market layer of the world-economy. If Adam Smith and Fernand Braudel were right in their contentions that capitalism would not survive such a disassociation, then capitalist history would not be *brought to an end* by the conscious actions of a particular agency as in the first outcome, but it would *come to an end* as a result of the unintended consequences of processes of world market formation. Capitalism (the ‘anti-market’) would wither away with the state power that has made its fortunes in the modern era, and the underlying layer of the market economy would revert to some kind of anarchic order” (Arrighi, 1994: 355-356). Arrighi’s third scenario is the most pessimistic one: In the transition period either towards “a post-capitalist world empire” or towards “a post-capitalist world market society”, violence may reign supreme so absolutely that “[w]hether this would mean the end just of capitalist history or of all human history, it is impossible to tell” (Arrighi, 1994: 356). Now, since our thesis is an attempt to demonstrate the ‘spontaneous’ collapsibility of capitalism, we are nearer to Arrighi’s second possible outcome, in which a ‘stateless’ anarchic market order is reached eventually and unintendedly. In this respect, while the systemic collapse may eventually come ‘spontaneously’ without necessitating a concerted action on the part of anti-systemic movements, the conversion of the resulting ‘anarchic order’ into a socialist or non-capitalist human system will of course necessitate concerted action. But to be able to do so, anti-capitalist social forces (especially those in the Third World) should be prepared to respond effectively to such a ‘spontaneous’ collapse in the face of ‘governance’. We insist that calls for the modified versions of the ‘social state’ of the Golden Age of capitalism do not constitute effective responses. Indeed, they have the potential to prevent the collapsibility of capitalism, as we argued in section 3.5 as well as in just the previous footnote in this chapter.

will be not only summarizing the tenets of our institutionalist international political economy perspective, but also putting a new face on the implications of our thesis. If there is a grain of truth in our prognostic arguments, the Third World community should start to prepare itself for a self-re-organization as soon as possible in order not to miss again the opportunity of constructing a truly ‘great transformation’.

Throughout our thesis, we regularly referred to the term ‘world-economy’ and treated capitalism as a ‘historical world-system’ – an ‘open system’, indeed. The careful reader should have already noticed our *premise* in constructing our political economy perspective, upon which our diagnoses and prognoses rely.<sup>69</sup> If there is one essence of economic liberalism from the philosophers of Scottish Enlightenment to the contemporary neoliberals, it can best be summarized as: ‘Spontaneity yields efficiency’. The argument goes that self-regulating economic processes lead to a ‘spontaneous order’ in the form of an efficient market economy, whereas political institutions constitute ‘the state’ as a cumbersome structure, which distorts ‘spontaneous efficiency’. Hence, ‘the state’ must be strictly separated from the economic processes so that efficiency

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<sup>69</sup> We attempted to construct such a perspective to bridge Institutional Economics with World-Systems Analysis in order to enhance the global applicability of the former. As we have already mentioned in the Introduction, ‘world-economy’ is a term used by Fernand Braudel and Immanuel Wallerstein and means a space defined by the existence of a single division of labor (coexistent with multiple states) whereas ‘world economy’ would indicate the arithmetic summation of national economies each of which would possess a division of labor and a state of its own (Wallerstein, 1979: 6). ‘World-economy’ is useful for treating the unity by recourse to its common dynamics constitutive of economic inequalities and power asymmetries. If in the wake of the so-called ‘globalization’, there is now a pervasive discourse on ‘global governance’ as the nascent institutional setup of the global economy, we might as well as treat this new concept in relation with the systemic unity and asymmetries to which it corresponds. Nevertheless, the two approaches remain wide apart in spite of a common heritage they share. For example, in the syllabus of a postdoctoral seminar, Wallerstein identified Karl Polanyi along with Joseph Schumpeter as among the few “immediate and forgotten predecessors of world-systems analysis” (Wallerstein, 1994). His colleague Terence K. Hopkins was a young participant in Polanyi’s interdisciplinary research team at Colombia University on economic anthropology. Giovanni Arrighi, who gave a new impetus to world-systems studies with his *The Long Twentieth Century* (1994), relied heavily upon his reinterpretations of Polanyi’s idea of ‘double movement’ and Schumpeter’s idea of ‘symbiosis’ as ‘political exchange’ so much so as to qualify as a disguised institutionalist. In short, world-systems analysts have benefited greatly from the institutionalist tradition. In turn, institutional economists have so far not reciprocated. We hope to have taken a step in this direction in order to advance further the critique of economic liberalism to which both schools of thought remain deeply committed.

can be ensured through the operation of the self-regulating market. In this regard, *The Great Transformation* of Karl Polanyi (1944) offers an effective antidote by arguing that separation of economic processes and political institutions implies the destruction of social cohesion. Hence, any viable social system must maintain the ‘embeddedness’ of ‘economic processes’ and ‘political institutions’. Separation of ‘the market’ and ‘the state’ entails the destruction of ‘embeddedness’, which, in turn, paves the way for the collapse of the social system as a whole.

In our thesis, we elaborated Polanyi’s concept of ‘embeddedness’ so as to construct an institutionalist framework to understand the contemporary world-economy. We contend that ‘embeddedness’ can be deployed to analyze the so-called ‘global governance model’ as the most recent liberal recipe. The Washington Consensus had led many countries to minimize the role of ‘the state’ in economic affairs during the 1980s up until the world-wide financial crises of the 1990s. The advocates of orthodoxy have nevertheless continued to put the blame on ‘the state’. If ‘the state’ were able to work in accordance with the spontaneous and efficient logic of ‘the market’, neoliberalism could still succeed. In the meantime, ‘commanding heights’ of the world-economy proved to be a late-comer in realizing that ‘institutions matter’. The World Bank (WB), United Nations Development Programme (UNDP) and the Organization for Economic Cooperation and Development (OECD) have contributed significantly to the construction of the ‘global governance model’ (WB, 1989, 1992, 1994, 1997; Kaufmann *et al.*, 2005; UNDP, 1997a, 1997b, 2001, 2003; OECD, 1996, 2001a, 2001b, 2002). Contemporary liberals have thus discovered that ‘good institutions’ are conducive to ‘economic performance’, and ‘good governance’ is needed at all levels of the global economy. This entails the *institutional* transformation of the state in addition to its minimization. As the most recent link in the liberal chain of thought, it dictates that agencies of a loosely-defined ‘civil society’ and ‘independent regulatory institutions’ be involved within the *new institutional* construct of ‘the state’. ‘The state’ must be converted into a ‘spontaneous’ and ‘efficient’

institution after the mirror-image of the market process, as we discussed in some detail in the third chapter on ‘governance issues’.

Then, in constructing our perspective, we examined the ‘embeddedness’ of ‘the market’ and ‘the state’ as the survival condition of social systems. We established an ‘institutionalist’ link between Polanyi and Schumpeter, to which we referred as the ‘Polanyi-Schumpeter rapprochement’ *vis-à-vis* the ‘Hayek-Polanyi polarity’. We utilized two social-scientific principles that we found in Hodgson’s works: ‘Principle of dominance’ and ‘principle of impurity’ (Hodgson, 1984: chs. 6 & 7; 1988: 167-171 & 256-262; 1999: 124-130; 2001a: 333-40; 2001b: 70-75). Once we synthesized Polanyi (1944) and Schumpeter (1942) by way of these principles, we sought inspiration from the economic history of Braudel as put forward in his three-volume *Civilization and Capitalism* (1981, 1982, 1984). We thus incorporated ‘capitalism’ as an ‘open’ world-system into our analysis as would befit the institutionalist methodology. Given this background, in the remaining few pages that follow, we summarize how we constructed our perspective as well as why ‘governance’ may imply the end of capitalism.

‘Principle of dominance’ is the idea that social systems usually involve some dominant structures in juxtaposition to their non-dominant components. Particular modes of production and exchange are more dominant than others. These dominant modes constitute the basic characteristics of the social system as a whole. The momentum of the system is a function of these dominant elements. For instance, in a social system where the rules of the market are prevalent, the economic component of the system dominates the political component. Or, in a social system where the rules of planning are prevalent, ‘the state’ dominates ‘the market’. In general, either the economic processes or the political institutions may represent the dominant mode of regulation in social systems. On the other hand, ‘principle of impurity’ implies that the non-dominant elements of social systems are *necessary* and *indispensable* impurities, which yield systemic complexity. Every social system must involve

a certain level of institutional complexity so that it can innovatively respond to the variety of potential shocks. Even though social systems are characterized by particular dominant elements, the non-dominant structures constitute an integral part of the system. We might as well summarize the alternative institutionalist motto as “Diversity breeds (dynamic) efficiency”.

Social systems survive thanks to the co-existence of dominant structures and non-dominant impurities. A pure system is not viable. For instance, a social system which relies exclusively on a central plan is bound to collapse. Pure central planning implies the overthrow of ‘the market’ as an economic mechanism of exchange. It is an attempt to erect a comprehensive political institution in the place of the economic component of the system. However, social life cannot be reduced to the dictations of political institutions. Similarly, a social system which relies on a purely economic logic is also bound to collapse. Pure market processes imply the overthrow of the political component of the system. Hence, construction of a self-regulating market system is an attempt to reduce social life into the purely economic logic of the market, which is nothing but a “stark utopia” (Polanyi, 1944: 3). In short, systemic purification (either economic purification or political purification) is bound to yield self-defeating consequences since social systems are conceivable only if the dominant and impure structures are embedded within social life.

Hodgson used, among other things, the insights of Polanyi and Schumpeter to develop the institutionalist principles of ‘dominance’ and ‘impurity’ (Hodgson, 2001b: 71). Polanyi’s thesis is that the market-formation for ‘fictitious commodities’, that is land, labor, and money, threatened the institutional fabric of society in the nineteenth century (Polanyi, 1944). To the extent that the state was disabled to provide social protection, the market led to a social dislocation. As the system thus converged towards a purely economic substance, ‘political economy’ was replaced by an ‘economic economy’, so to speak. However, a ‘purely economic economy’ was bound to collapse since it destroyed the

indispensable impurities provided by political institutions. Destruction of social ‘embeddedness’ of ‘the dominant market’ and ‘the impure state’ implied the impossibility of further systemic sustainability. The ‘nineteenth-century civilization’ was bound to collapse because of its success in dismantling political institutions, which constituted the non-dominant and impure yet the indispensable part of the social system.

As such, we reached a position to establish a strong link between Polanyi and Schumpeter. Schumpeter (1942) wrote his *Capitalism, Socialism and Democracy* at about the same time Polanyi (1944) did his *The Great Transformation*. Like Polanyi, Schumpeter also envisaged a ‘great transformation’ after the Second World War. His thesis was that capitalism was bound to collapse because of its success. The well-known Schumpeterian concept of ‘creative destruction’ indicates a purely economic process based on the innovative and adaptive capability of capitalism. In contradistinction, the politico-cultural framework of capitalism was subject to a process of ‘uncreative destruction’ (Özveren, 2000). According to Schumpeter, capitalism could take shape and survive within the non-economic framework of politico-cultural institutions. Non-dominant and impure politico-cultural institutions “not only hampered”, but “also sheltered” (Schumpeter, 1942: 135). Insofar as the dynamism of the capitalist economy dismantled those necessary impurities, capitalism fast approached its collapse. As the over-dynamism of the capitalist economy led the system towards economic purification, the protective function of non-economic institutions was being eliminated. The feudal aristocracy – representing the politico-cultural framework of capitalism – was a *protecting master* from the viewpoint of the capitalist bourgeoisie. “It was an active *symbiosis* of two social strata, one of which no doubt supported the other economically but was in turn supported by the other politically” (Schumpeter, 1942: 136, emphasis ours). The purely economic momentum of the system was thus distorting this ‘symbiosis’ between the economic processes and the politico-cultural institutions. Schumpeter’s notion of ‘symbiosis’ is a mirror-image of Polanyi’s concept of ‘embeddedness’. The economic processes and

the political institutions are indispensable to each other so as to constitute a social symbiosis or social embeddedness. We identified here the survival condition of social systems in terms of the principles of dominance and impurity.

The next step was to identify the systemic survival condition for capitalism as a historical world-system. To this effect, we turned to Braudel's economic history which has a lot in common with institutional economics (Özveren, 2005). Braudel has a thought-provoking idea: Capitalism and market economy are not only different from each other, but also "exact opposites" (Braudel, 1982: 22): Capitalism is "the zone of the anti-market" (Braudel, 1982: 230). In other words, 'market without capitalism' is a "transparent zone" characterized by the reciprocity of needs and fair competition, whereas 'market with capitalism' is a "shadowy zone" characterized by the accumulation of economic power and monopolization. As such, capitalism is not a natural consequence but "an enemy of the market" (Wallerstein, 1991a: 202).

In Braudel's scheme, capitalism is essentially an international and financial phenomenon. True home of capitalism is the 'commanding heights' of the world economy. In the *longue durée*, a powerful coalition between the 'commanding heights' and 'the state' summarizes the general history of capitalism. "Capitalism only triumphs when it becomes identified with the state, when it is the state" (Braudel, 1977: 64). Indeed, the following lengthy quotation makes everything crystal clear:

And there are certainly serious commentators who have written of the all-powerful state, crushing everything in its path, stifling initiative in the private sector, sapping the beneficial freedom of the 'innovator'. The state, they say, is a mastodon that must be driven back into its cave. But it is of course possible to read the opposite – that capital and economic power are entrenched everywhere, crushing the freedom of the individual. We should not let ourselves be deceived: the truth is of course that both state and capital – a certain kind of capital at any rate, the monopolies and big corporations – coexist very comfortably, today as in the past; capital

does not seem to be doing so badly. It has, as it always did, burdened the state with the least remunerative and most expensive tasks: providing the infrastructure of roads and communications, the army, the massive costs of education and research. Capital also lets the state take charge of public health and bear most of the cost of social security. . . . “Contrary to the myth of the private sector as the source of initiative whose dynamism is stifled by government action, . . . capitalism has found, in the range of activities peculiar to the state, the means of ensuring the survival of the entire system”<sup>70</sup> – the capitalist system needless to say. . . . Lastly, it is thanks to its friendly relations, indeed, symbiosis, with the state . . . that ‘monopoly capitalism’ . . . prospers. (Braudel, 1984: 623-4).

In this connection, we define capitalism as a historical world-system that possesses two major institutions: The capitalist market and the capitalist state. We go so far as to conceptualize capitalism as a politico-economic world-system that is by no means conceivable in the absence of either of these indispensable tools of self-survival. However, capitalism has a natural drift to reproduce an institutional disharmony between its political and economic components; *i.e.*, the state and the market. At this point, let us recall that socio-economic systems survive thanks to the embeddedness of or symbiosis between their political mechanisms and economic processes, which we termed as the ‘harmony of disharmony’ between the institutionally different constituents of the system. As such, we argue that capitalism incessantly engenders an augmenting ‘artificial dichotomy’ between its constituents so as to pave the way for an ultimate ‘disharmony of disharmony’ – or ‘economic purification’ so to speak.

In our institutionalist perspective, ‘the state’ assumes two opposing roles within the general history of capitalism: “regulator of competition” and “guarantor of monopolies” (Wallerstein, 1991b: 360). Polanyi being our

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<sup>70</sup> Braudel takes this quotation from a review of two books by the Italian economist Federico Caffe (Braudel, 1984: 624, endnotes 9, 10 & 11) to further qualify and extend their argument to the general history of capitalism: “[C]ollusion between the state and capital is nothing new” (Braudel, 1984: 624).

original source of inspiration, we can rethink of ‘market-without-capitalism’ and ‘market-with-capitalism’, respectively, as corresponding to the cases of ‘embeddedness’ and ‘disembeddedness’ at global level of analysis. In the first case, ‘the state’ functions as the regulator of *the true market* and prevents systemic purification. In the second case, ‘the state’ serves as the guarantor of *haute finance* and leads the system towards ‘purification’ by way of financial expansion.

Therefore, at the level of the world-economy analysis, the state is the decisive actor in yet another kind of ‘double movement’, which we stressed as our Polanyian premise in writing this dissertation. We can re-conceptualize capitalism as a historical world-system that survives thanks to the opposing roles of the state. Capitalism as a self-regulating market system has an inherent tendency towards financial purification. The coalition between ‘the state’ and *haute finance* constitutes the dominant global structure as the zone of the anti-market. To the extent that *haute finance* utilizes the state as a power pivot to superimpose a self-regulating market system, the system tends towards financial purification, and hence towards its ultimate collapse. However, capitalism is identified with “its unlimited flexibility, its capacity for change and *adaptation*” (Braudel, 1982: 433). As the system tends to economically purify, the state starts to assume its political-regulatory function so as to prevent the likely collapse. These ‘double movements’ on the part of the state characterize the general history of capitalism in accordance with Pirenne’s pendulum that swings between the opposite poles of ‘economic freedom’ and ‘economic regulation’ (Pirenne, 1953). In this vein, we can argue that the ‘nineteenth-century civilization’ never collapsed *completely*. This is also why a truly ‘great transformation’ did not take place after the Second World War. The self-regulating market system was replaced by a world-system of welfare and developmental states. However, this was just a period of capitalist re-adjustment. The role of ‘the state’ as the protector of anti-market (*i.e.*, as the power pivot of *haute finance*) was tentatively given up so that the system could be saved. As soon as the system acquired sufficient non-economic impurity and

non-financial complexity (via Keynesianism and Fordism), self-regulating market system made an ideological and practical comeback as of the 1980s.

Such a synthesis of Polanyi, Schumpeter and Braudel yields us an institutional political economy perspective with which we argue that the collapse of social systems requires *complete purification*, either in terms of economic processes or political institutions. Hence, our analysis is compatible with the Marxian prognosis that capitalism can be brought to an end by revolution; that is, by replacing ‘the market’ with an encompassing central plan as in the post-1917 Soviet Russia. Our perspective further envisages that such an attempt for full political purification will inevitably cause a systemic collapse sooner or later, since social life cannot be harnessed to the dictates of political institutions. Any such political attempt that happens to succeed in destroying social embeddedness or social symbiosis is eventually bound to be self-defeating. However, this conclusion is equally valid in the case of economic purification: Any system that becomes fully purified in economic terms and succeeds in completely eliminating its political component will also collapse eventually.

As a historical world-system, capitalism has had an inherent and spontaneous dynamics to prevent such full purification. When the capitalist system tends towards complete economic purification, ‘the state’ is so manipulated that it temporarily gives up its role as the protector of the anti-market and assumes its role as the regulator of fair competition. As such, capitalism entails a process of ‘creative destruction’ in terms of utilizing the state apparatus along successive ‘double movements’. Thus, according to our perspective, capitalism can also be brought to an end, if capitalists themselves happen to engage in a kind of counter-revolution, which aims at completely dismantling ‘the state as we know it’ so as to totally lose its capabilities of regulation, social-protection, and planning. That is to say, if ‘the state’ ceases to function as the provider of necessary ‘impurities’ to avoid systemic collapse at times of economic purification, capitalism is bound to collapse eventually. Put differently, if the state were to be converted into a non-political institution, then not only the

system would fast approach full economic purification, but also capitalism would lose its ability to escape systemic collapse. Until recently, capitalism has never attempted to fully get rid of the regulatory function of the state. We are now at a critical threshold. A *new institutional* project is in the making at the level of the world-economy: The global governance model, which we analyzed in the third chapter as an ultra-liberal project to alter entirely the institutional substance of ‘the state as we know it’.

Accompanied by the systemic financial purification that was required by the ‘commanding-height’ capitalists, 1970s were the preparation years for paving the way for the revival of liberal creed. During the 1980s, neoliberals envisaged a ‘quantitative’ change in the role of ‘the state’ *vis-à-vis* ‘the market’. Under normal circumstances this phase should be followed by a reversal of the trend with ‘the state’ resuming its socio-economic role so that the systemic tendency towards a potential collapse can be avoided. Instead, however, ‘commanding heights’ of the world economy are nowadays involved in an attempt to convert ‘the state’ into a purely non-political institution fashioned after the market implying utmost economic purification. This is the reason why we concur with Schumpeter’s prognosis: We may witness the end of capitalism in the short-run. To be sure, we should also recall Schumpeter’s warning that “[a] century is a short-run” (1942: 163) as far as such a ‘great transformation’ is concerned.

Until the 1990s, capitalism-as-a-historical-world-system never attempted to change the conventional structure of ‘the state’ and always utilized it as a means of avoiding complete economic/financial purification. In this regard, ‘governance’ looks like an ultra-liberal project that may ‘spontaneously’ put an end to the sustainability of capitalism. In other words, the success of governance may result in unintended consequences in terms of the coherency of the capitalist world-system. For the first time in capitalist history, liberals/capitalists may be unconsciously trying to get rid of ‘the state’, which they used to utilize as an effective political institution for self-survival. Let us

repeat how we conceptualize ‘governance’ as a ‘self-regulating threat’ to capitalism: The big problem is that if the ‘powerful’ instrument of planning is confined to and directed at the *perennial* protection of the self-regulating market system, then the ‘social-protection’ component of the ‘double movement’ is most likely to permanently lose its impurity-generating supportive institutions along an irreversibly ultra-liberal path of complete economic purification.

The underlying thesis of liberal thought is well-known: When ‘the state’ does not interfere with the economic affairs, individual economic agents unintendedly contribute to social well-being automatically by running freely after their self-interests. Beneficial *social* consequences emerge spontaneously out of the state-free/self-interested behavior at the level of the individual. We can re-consider the governance model in the ‘light’ of this fundamental axiom of liberal thought, while preserving our anti-liberal point of view. In this light, ‘governance’ may lead to the spontaneous collapse of ‘the anti-social’ (*i.e.*, capitalism) by dragging the system towards complete economic/financial purification. Neoliberals may be unknowingly fulfilling a mission they could never have dreamed of. The ‘governance’ obsession on their part may actually lead to ‘unintended’ yet ‘beneficial’ and truly ‘social’ consequences.

‘Governance’ implies that the state must be not only market-friendly, but also market-like: The state must work as if it were a market. Hence, what is now being dictated for the first time is a ‘qualitative’ change in its substance. Put differently, neoliberals may well be pursuing a counter-revolution in order to make the supremacy of the market *permanent*. However, this is not only impossible, but also self-defeating. In accordance with the institutionalist principles of impurity and dominance, a purely economic system is not viable. Therefore, contemporary liberals may be unconsciously creating self-defeating dynamics that can lead to the complete collapse of the capitalist world-system in the manner just as once Schumpeter envisaged. Hence, if we wish to see the

end of liberalism and capitalism, we may nowadays make an ironical appeal for this to come true: *Laissez faire, laissez passer!*

In this respect, we insist that there is not an ‘agency problem’ in our thesis as far as our work involves a conceptual framework of analysis. The ‘agency’ – or ‘the subject’, so to speak – to put an end to capitalism – ‘the object’ – is not lacking in our theoretical perspective. What we argue is that contemporary collapsibility of capitalism does not require the ‘concerted action’ of anti-capitalist movements. Here, one must *not* confuse the ‘collapsibility of the capitalist world-system’ with the ‘constructability of a non-capitalist alternative’. Identifying the trajectory of capitalism towards its demise is one thing, and discussing the possibilities of re-constructing a new system in its place is quite another. Our thesis is *merely* about the theoretical likelihood of the eventual demise of capitalism thanks to the global ‘governance’ efforts on the part of the ‘commanding-height’ capitalists. On the other side, the task of constructing a non-capitalist world is of course a matter of concerted action on the part of anti-capitalist movements. However, this is a different subject-matter, which is to be handled in the context of another dissertation and further research.

Our contention is that the decisive dynamics of collapsibility arise nowadays from the capitalist institutional ‘superstructure’ itself. In the nineteenth century, capitalism was away from home when it ventured into the ‘hidden abode of production’ – the ‘infrastructural’ source of systemic contradictions. However, then, capitalism as the ‘almighty’ tip of the socio-economic pyramid had been able to preserve its ‘superstructural’ coherency. At large, the major systemic contradiction was then attributable to the capital-labor conflict. Nevertheless, that kind of dialectic remained insufficiently operational for a system-wide collapse as long as capitalism maintained its institutional coherence over the relations and forces of production – and despite the ‘disruptive strains’ it generated. In contra-distinction, we insist that capitalism is nowadays passing through a crisis of ‘superstructure’. It is not only the capitalism-ravaged

‘infrastructure’, but also the capitalist ‘superstructure’ itself that is paving the way for the *ultimate* limits of the possible. Of course, anti-systemic movements, which are carried out by anti-liberal and anti-capitalist intellectuals and activists, can facilitate and contribute to the eventual demise of the capitalist world-system. However, our thesis is that, even in the absence of such volitional and man-made movements, capitalism is doomed to a ‘spontaneous’ collapse thanks to its *self-destructive* proclivity as far as institutional ‘harmony of disharmony’ is concerned. It is in this vein that it becomes the responsibility of anti-systemic movements to search for possibilities of self-redefinition and self-reorganization so that they can respond accurately and effectively to the self-defeating efforts of governance.

If our perspective actually bears up to truth, then contemporary anti-capitalist movements should differentiate themselves with respect to the allegedly ‘socialist’ experiences of the twentieth century, when ‘the market’ was comprehensively replaced by ‘the state’. Similarly, ‘state-led’ developmental prescriptions of the conventional heterodoxy should also be re-written so as to take into account the following fact: ‘The state’ is bound to remain ‘anti-social’ as long as the tip of the Braudelian pyramid remains ‘anti-social’. Fortunately, it may be sufficient to get rid of merely the tip of the Braudelian pyramid, while preserving the economic and material civilizations beneath it. ‘History’ of the twenty-first century may be keeping good time to ‘take it easy’ on the eve of the end of capitalist civilization, whose demise is likely to become the unintended consequence of the construction of ‘the state of governance’.

As we have already cited, Braudel warned us, among other things, about the ‘anti-developmental’ nature of capitalism:

Is not the major obstacle facing today’s developing nations the international economy in its existing form, and the way in which it divides and distributes tasks – something on which this book has already laid if anything too much emphasis? (Braudel, 1984: 542).

To be sure, it is all the more essential to accentuate and respond to the ‘anti-social’ nature of capitalism in the ‘age of governance’. Is not the major obstacle facing today’s underdeveloped nations the zone of the anti-market in its historical-systemic form, and the way in which it has come to paralyze ‘the social’ – something on which this dissertation has already laid if anything too much emphasis?

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## APPENDICES

### APPENDIX A

#### TURKISH SUMMARY

#### KURUMSAL SİYASAL İKTİSAT YAKLAŞIMIYLA İKTİSADI KALKINMA VE KÜRESEL YÖNETİŞİM

Bu çalışmada iki temel tez öne sürülmektedir. Birinci, İkinci Dünya Savaşı'nın sona ermesiyle birlikte ortaya çıkan Üçüncü Dünya ülkelerinin 'azgelişmişlik' sorunu, günümüzün küresel kapitalist koşulları altında çözümsüz görülmektedir. Başka bir deyişle, az gelişmiş ülkelerin onyillardır özlemini çektiği 'kalkınma' ufukta görünmemektedir. İkincisi, günümüzün dünya ekonomisini daha iyi çözümlemek ve anlamak için siyasi ve iktisadi kurumları odak noktasına koyan bir Uluslararası Siyasal İktisat yaklaşımını benimsemekte yarar vardır. Kapitalist dünya sisteminin günümüzde geldiği noktada, özünde siyasi bir kurum olan devlet ile özünde iktisadi bir kurum olan piyasanın karşılıklı etkileşim alanlarının köklü biçimde dönüştürüldüğü bir çağda yaşadığımızı iddia ediyoruz. Az gelişmiş ülkelerin kalkınma çabalarının önünde güçlü bir engel olarak gördüğümüz bu 'büyük dönüşüm', bugunlerde küresel yönetim modeli olarak adlandırılmaktadır. Bu nedenle, tezimizi, yönetişimin kalkınma çabaları ve kapitalist dünya sisteminin geleceği açısından ne anlama geldiğini irdelemek amacıyla doğrultusunda kurguladık. Bu kavramsal ve kuramsal kurgulama girişimimiz, 'Kurumsal Uluslararası Siyasal İktisat' (KUSİ) olarak adlandırdığımız bir yaklaşım geliştirme çabasına dayanmaktadır.

Tezimizin birinci bölümü olan Giriş'te, iktisadi kuram ve uygulamaların tarihsel olarak iki temel bakış açısı üzerinden geliştiği noktasından yola çıktık.

Akademik çevrelerde ve politika oluşturan ve uygulayan kuruluşlarda, ‘devletçi’ ve ‘piyasacı’ olarak nitelenebileceğimiz iki karşıt yaklaşımın süregeldiğini gözlemlemek mümkündür. Devletçiler ekonomik başarının ve kalkınmanın, devlet eliyle sağlanabileceğini savunurken, piyasacılar devletin ekonomiden olabildiğince uzak durmasını ve kendi kurallarına göre işleyen piyasa sürecinin toplumsal açıdan en yararlı sonuçları vereceğini öne sürer. Devlet-piyasa karşılılığı olarak nitelene gelen bu ikili çatallanmanın tarafları olarak ve bu çalışmanın amaçları doğrultusunda (biraz da maksadımızı aşacak biçimde) devletçileri ‘heterodoks’ ve piyasacıları ‘ortodoks’ iktisatçılar olarak tanımladık. Bu bağlamda, bu yakınlarda yayımlanmış olan bir kitabı geleneksel heterodoks yaklaşımın iyi bir temsilcisi olduğunu düşündüğümüz için bir sıçrama tahtası olarak seçtik. Ha-Joon Chang ve Ilene Grabel'in (2005) kaleme aldığı bu kitabın, 1990'lı yıllarda yeniden canlanma belirtileri gösteren Kalkınma İktisadi disiplininin devletçi-heterodoks gelişim çizgisi içinde önemli bir yere sahip olduğunu ve piyasacı-ortodoks neoliberal karşı ‘kamp’ın önermelerini genellikle ikna edici biçimde çürüttüğünü düşündük. Ancak, yazarların, özünde sistem içinde kalarak uygulanmasını önerdikleri alternatif iktisat politikalarının, özellikle küresel yönetim çağında azgelişmişlik derdine deva olamayacağını da tespit ettik. Yönetim modelini, geleneksel devlet-piyasa karşılığı olgusuna (siyasanın büsbütün ortadan kaldırıldığı bir piyasa düzeni oluşturarak) son vermek üzere kurgulanmış çağdaş, ortodoks ve aşırı-liberal bir tasarım olarak kavramsallaştırdık ve devletçi-heterodoks kalkınma seçeneklerinin bir hüsnükurundan ibaret kalabileceği olasılığına dikkat çekmeye çalıştık.

yönetişim kavramı, güncel anlamıyla ilk kez 1989 yılında Dünya Bankası tarafından, özellikle Sahra'nın güneyindeki Afrika ülkelerinde, genelde çoğu az gelişmiş ülkede yaşanmakta olan ‘devletin krizi’ sorununa bir çözüm önerisi olarak öne sürülmüştü. Bu kavramın, yaklaşık son 15 yılda küresel bir model oluşturacak biçimde geliştiği süreci anlamak için biraz daha geriye gitmekte yarar var. 1970'lerde yaşanan petrol şokları, 1980'lerin hemen başında birçok az gelişmiş ülke açısından bir uluslararası borç krizine dönüşmüştü. Bu

ülkelere, borç batağından kurtulabilmeleri ve ekonomik büyümeye performanslarını iyileştirebilmeleri için temelde sıkı mali disiplin, dışa açıklık ve devletin ekonomideki rolünün azaltılmasını öngören ve Washington Mutabakatı olarak adlandırılan neoliberal politikalar dayatılmıştı. Dünya Bankası'nın yapısal uyum programları ve IMF'nin (Uluslararası Para Fonu'nun) istikrar politikaları çerçevesinde, bu piyasacı-ortodoks politikaları 1980'lerde ve 1990'ların başında uygulayan ülkeler, 1990'ların ikinci yarısıyla birlikte yeni ekonomik krizler yaşadılar. Neoliberaller suçu yine de devlete atmayı sürdürdüler. Onlara göre, Washington Mutabakatı gerektiği gibi uygulanmamıştı. Bunun sebebi, devletin geleneksel yapılarının, piyasanın kendiliğinden etkin ve yararlı ekonomik sonuçlar verme potansiyelini engellemiş olmasıydı. Yönetişim modeli böylece, politika reformlarına dayanan Washington Mutabakatı'nın ardından, kurumsal reformlara odaklı yeni bir piyasacı-ortodoks tasarım olarak gelişti.

Az gelişmiş ülkelerde, yolsuzluk, hantallık, kaynak israfı gibi sorunların kaynağı olarak görülen geleneksel devlet yapılarının, siyasi çıkar sağlama zihniyetinden arındırılıp, bütbüten rasyonel-iktisadi mantığa göre işleyen özerk birimler olarak yeniden yapılandırılması, yönetişim reformlarının arka planını oluşturmaktadır. Yönetişim modelinin, bizim kavramsallaştmamıza göre üç temel hedefi vardır: 1) Devlet kurumlarının, piyasaya odaklı şirketlere özgü etkin, girişimci ve özerk bir anlayışla işletilmesi, 2) Geleneksel olarak devletin sağladığı 'kamu hizmetleri'nin artık piyasada iktisadi kurallara göre sunulması, ve 3) Bu genel 'piyasalaşma' sürecinin işlemesini kolaylaştırmak için sivil toplum kuruluşlarının siyasal ve iktisadi karar alma süreçlerinde doğrudan söz sahibi olması.

Bu bağlamda, yönetişim, bizce, yalnızca 'bildik devlet kurumları'nın ekonomiye müdahale edebilme özelliklerinin *niceliksel* olarak törpülenmesi değil, aynı zamanda söz konusu kurumların aşırı-liberal bir siyasasız piyasa anlayışı doğrultusunda *niteliksel* olarak bütbüten değiştirilmesi ve dönüştürülmesi anlamına gelmektedir. Dolayısıyla, yönetişim çağında,

geleneksel devletçi-heterodoks politika seçenekleri sunmakta ısrar etmenin işlevsellik olasılığı düşüktür. Kapitalist dünya sisteminin Dünya Bankası, IMF, Dünya Ticaret Örgütü, Birleşmiş Milletler Kalkınma Programı, OECD ve Avrupa Birliği gibi ‘egemen dorukları’, yönetim modelini aşırı-liberal piyasacı-ortodoks bir anlayışla benimser ve az gelişmiş ülkelere dayatırken, bildik sosyo-ekonomik politika oluşturma ve uygulama kapasitelerini hızla kaybeden devlete (üstelik sistem içinde kalınarak) nostaljik anımlar yüklemek ve bel bağlamak, bize göre pek gerçekçi değildir. Bu yüzden, devlet aygıtına böyle anımlar yükleyerek büyümeye ve kalkınma seçenekleri sunan Chang ve Grabel'in çizdiği umut verici tabloyu fazla iyimser buluyoruz. Bu noktada, ‘nostalji’den kastımızı açıklamak amacıyla, kalkınma sorunsalını çalışmanın ikinci bölümünde 1945'ten günümüze kadar geliştiği biçimyle ele alındı.

İkinci Dünya Savaşı'nın son bulmasıyla birlikte, dünya, sosyo-ekonomik açıdan üç ayrı ülke grubunu içerecek biçimde yeni bir görünüm kazanmaya başladı. Kalkınma yazınında, bu ülke grupları, Birinci Dünya, İkinci Dünya ve Üçüncü Dünya olarak adlandırılmaktadır. Birinci Dünya'yı, sanayileşme sürecini tamamlamış, sosyo-ekonomik açıdan görece üstün bir konumda olan, kapitalist dünya sisteminin merkezinde yer alan, savaşı atom bombası kullanarak sonlandıran Amerika Birleşik Devletleri'nin (ABD'nin) önderliğindeki görece zengin Batı Avrupa ve Kuzey Amerika ülkeleri oluşturuyordu. İkinci Dünya'ya, Birinci Dünya Savaşı sırasında sosyalist bir devrime sahne olmuş ve İkinci Dünya Savaşı'nda Hitler'in Almanya'sını dize getiren Sovyet Sosyalist Cumhuriyetler Birliği (SSCB) önderlik ediyordu. Başta Doğu Avrupa'dakiler olmak üzere birçok ülke, SSCB'nin sosyalizm girişiminin kapitalizmden daha iyi sosyo-ekonomik sonuçlar vereceğine ikna olmuş görünüyordu. Öte yandan, ne Birinci Dünya'nın gelişmişlik düzeyinden nasibini alabilmiş, ne de SSCB'ye öykünerek kapitalist dünya sisteminin dışına çıkmış, bir kısmı siyasi bağımsızlıklarını yeni yeni kazanan, Latin Amerika'dan Orta Doğu'ya, Afrika'dan Güney Asya'ya uzanan geniş bir coğrafyaya dağılmış, görece fakir ve sanayileşmemiş bir ülke grubu ise Üçüncü Dünya'yı oluşturuyordu. Üçüncü Dünya'nın temel sorunu, en basit

anlatımıyla, Birinci Dünya gibi olamamaktı. Başka bir deyişle, Üçüncü Dünya sanayileşememiş yani kalkınamamıştı. Dolayısıyla, Birinci Dünya'nın sosyo-ekonomik gelişmişlik düzeyini yakalayabilmek için öncelikli hedef kalkınmaktan başka bir şey olamazdı. Kalkınma İktisadı, tam da bu bağlamda gelişmeye başladı. Üçüncü Dünya ülkelerinin, kapitalist dünya sisteminden çıkmadan (yani o günün koşulları itibariyle sosyalistleşmeden) sanayileşebilmesi yani kalkınması için 'Ne yapmalı?' sorusuna bir yanıt olarak Kalkınma İktisadı ortaya çıktı ve 1970'lere kadar etkili oldu.

Tezimizin ikinci bölümünde 'Kalkınma İktisadı'nın yükselişini ve gerileyişini (Yapısalçı Okul, Modernleşme Kuramı ve Bağımlılık Kuramı ile etkileşimlerini göz önünde tutarak) ayrıntılı biçimde anlattık. Bu anlatıyı, tezimizin amaçları doğrultusunda, devlet-piyasa karşılılığı çerçevesinde geliştirmeye özen gösterdik. 1945'ten günümüze kadar gelen yaklaşık altmış yıllık dönemin ilk yarısı, Birinci ve Üçüncü Dünyaları kapsayan kapitalist dünya ekonomisi için gerek ekonomik büyümeye performansı, gerekse uluslararası ticaret hacmindeki genişleme açısından 'devletçi' bir Altın Çağ olmuştur. Biz, bu Altın Çağ'ı, iki savaş arası dönemde dağılmaya yüz tutan yaşlı dünya sisteminin istisnai bir dönemi olmaktan çok, bu sistemin çöküşten kurtarılması amacıyla Birinci Dünya'da Keynesçilik ve Üçüncü Dünya'da kalkınmacılık arasında kurulmuş kapitalist bir ittifakın sonucu olarak yorumladık. Bize göre, bu ittifak, ondokuzuncu yüzyıl boyunca hüküm süren kendi kurallarına göre işleyen piyasa düzenini bir süreliğine askıya alarak maddi temeli tehlikeli biçimde aşınmış olan kapitalist dünya sistemini, refah devleti ve kalkınmacı devlet politikalarıyla onarmış, canlandırmış ve böylece sistemin beş yüz yıldır tekrarlanan gelen 'küresel' finansal genişleme evresine geçebilmesi için gerekli koşulları hazırlamıştır. 1970'lere doğru böyle bir finansal genişleme evresine geçmek için gerekli koşullar oluşturulmuştur. Böylece, maddi temeli besleyen devletçi politikaların yerini finansal üstyapayı besleyen piyasacı politikaların almasının zamanı gelmiştir. Bu çerçevede, 1945 sonrası altmış yıllık dönemin ikinci yarısında, yani devetten piyasaya tekrar dönüş sürecinde, Keynesçi-kalkınmacı kapitalist ittifakın dağıtılması ve yerine

neoliberal/yeni-muhafazakar ‘Yeni Sağ’cı bir ittifakin konması, kapitalist dünya sisteminin doğasında bulunan finansal genişleme gereksiniminin bir yansımıasıydı.

1980’lerden itibaren dünya sistemini yönlendiren Yeni Sağ’ın, 1990’larla birlikte yönetim modelini benimsemesinin ve benimsettirmesinin nedenini bu çerçeve içinde anlamaya çalışmanın yararlı olduğunu düşünüyoruz. 1950’lerde ve 1960’larda doğrudan Üçüncü Dünya’yı ilgilendirdiği düşünülen devletçi kalkınma modelinin, 2000’li yillara gelindiğinde dünya sisteminin ‘egemen dorukları’ncı piyasacı yönetimseme dönüştürülmüş olması, bizce gerek kalkınma çabalarının gerekse kapitalizmin geleceğini çözümlemek açısından önemli ipuçları sunmaktadır. Üçüncü bölümde, böyle bir çözümleme çerçevesinin altyapısını oluşturmak amacıyla, yönetim sorunsalını inceledik ve yorumladık.

Yukarıda da dejindiğimiz gibi, yönetim, özünde, siyasa odaklı devlet kurumlarını, piyasa odaklı şirket-benzeri birimlere dönüştürme girişimidir. Bu noktada, çalışmamızın amaçları doğrultusunda, özellikle Dünya Bankası’nın ‘iyi yönetim’ modeli ve bu modelin kuramsal altyapısını oluşturmuş olan Yeni Kurumsal İktisat (YKİ) üzerinde yoğunlaştık. Bunu yaparken, YKİ ile Asıl Kurumsal İktisat (AKİ) arasındaki farkı vurgulamamız gerekiyordu. Çünkü, çalışmamızın dördüncü ve beşinci bölümlerinde geliştirmeye çalıştığımız Kurumsal Uluslararası Siyasal İktisat (KUSİ) yaklaşımı, hem AKİ’nin araştırma programına dayanmaktadır, hem de YKİ’nin kuramsal olarak beslediği küresel yönetim modelini eleştirel biçimde ele almaktadır. Böylece, YKİ’nin, AKİ’nin daha modern bir versiyonu olmadığını ortaya koyduk. YKİ’yi ‘yeni’ yapan özellik, AKİ’nin temel çözümleme birimlerini alıp, bunları neoklasik iktisadın araçlarıyla incelemesidir. AKİ’nin neoklasik iktisata bütütün alternatif bir araştırma programı oluşturduğunu ve bu bakımdan neoklasik iktisatın çözümleme çerçevesiyle bağıdaştırılamayacağına değinerek; YKİ’nin getirdiği ‘yeniliğin’ neoklasik iktisadın bazı temel varsayımlarını değiştirmekten ibaret olduğunu belirtti. KUSİ çerçevehemizi geliştirirken

benimsedigimiz, AKİ'ye dayanan araştırma programı ile yönetişimin en önemli kuramsal kaynağı olarak gördüğümüz YKİ arasındaki bu farkı böylece vurguladıktan sonra, YKİ'nin ve İşlem Maliyetleri İktisadi'nın kurucu babaları sayılan Ronald Coase, Douglass C. North ve Oliver E. Williamson gibi iktisatçıların çalışmalarına dayanarak YKİ'nin neoliberal yönetim kavramının ve modelinin gelişmesine yaptığı katkıyı inceledik.

Genelde YKİ'de, özelde İşlem Maliyetleri İktisadi'nda, değişim (mübadele) ilişkilerinde ortaya çıkan kurumsal pürüzler olarak kavramsallaştırılan işlem maliyetleri, ekonomik etkinlik olgusunun temel belirleyicisi olarak karşımıza çıkmaktadır. Ekonomik etkinliği artırmanın yolu, işlem maliyetlerini azaltmaktadır. YKİ'de, işlem maliyetlerinin karşılaşmalıdır olarak ele alındığı üç ana kurumsal yapı söz konusudur: Firma (şirket), piyasa ve piyasa-dışı kurumlar. Bu çerçevede, firmaların varlık nedeni, piyasada karşılaşılan ve değişim sürecini yavaşlatan veya aksatan dışsal kurumsal pürüzleri içselleştirmeleridir. Başka bir deyişle, her ikisi de iktisadi birer kurum olan firma ve piyasa, işlem maliyetleri açısından karşılaştırıldığında, firma piyasaya göre daha ekonomik ve etkindir. Öte yandan, piyasa da piyasa-dışı kurumlara oranla daha düşük işlem maliyetleri yaratmakta, yani daha az kurumsal pürüzler içermektedir. Kısacası, değişim sürecini güçlendiren kurumsal pürüzler barındırma açısından en maliyetli (dolayısıyla, en az 'ekonomik' ve en az etkin olan) kurumsal yapı, piyasa-dışı kurumlardır.

YKİ'nin geliştirdiği bu karşılaşmalıdır kurumsal çerçeveden şu sonuç çıkmaktadır: Ekonomik etkinliğin maksimum düzeye çıkması (yani, işlem maliyetlerinin minimum düzeye inmesi) için en elverişli olan yapı firmadır. Ancak, özünde bir yönetim yapısı olan firmanın, piyasayı büsbütün ortadan kaldırarak tüm değişim ilişkilerini ve sürecini kendi bünyesinde toplaması mümkün değildir. Bunun sebebi, firmaların büyümeye olanaklarının sınırlı olmasıdır. Yani, firmalar büyündükçe, kaçınılmaz ve nihai olarak iyice karmaşıklaşan işletme ve eşgündüm sorunlarıyla karşı karşıya kalırlar. İktisatta 'ölçeğe göre azalan getiri' olarak bilinen bu durum, firmaların piyasada ortaya

çikan işlem maliyetlerini tamamen içselleştirmesini engeller. Başka bir deyişle, firma, işlem maliyetleri açısından piyasaya göre daha ekonomik ve etkin olsa da piyasanın kurumsal bir değişim ortamı olarak varlığını sürdürmesi kaçınılmazdır. Ancak, aynı durum, piyasa ve piyasa-dışı kurumlar arasındaki karşılaşırma için geçerli değildir. Biz, bu noktada, piyasa-dışı kurumları, kendi çalışmamızın amaçları doğrultusunda, kamu kurum ve kuruluşlarını kapsayan devlet olarak ele alındı ve YKİ'nin işlem maliyetleri çözümlemesini bu bağlamda yorumladık. Bu bağlamda, piyasa ve devleti, değişim sürecini yavaşlatan veya aksatan kurumsal pürüz yaratma kıtasına göre karşılaşıracak olursak, YKİ'nin çözümleme çerçevesinden çıkan sonuç, piyasanın devlete göre daha pürzüsüz olduğunu söylüyor. Öte yandan, piyasanın büyümeye sürecinde, firmalarda karşılaşılan ölçüde göre azalan getiri sorunu söz konusu değildir. Yani, devletin kapsadığı kamu kurum ve kuruluşlarının piyasa mantığına göre yeniden yapılandırılması ve önceden devletin yürüttüğü kamusal değişim ilişkilerinin piyasa sürecine devredilmesinin önünde kuramsal veya pratik bir engel yoktur.

YKİ'nin İşlem Maliyetleri İktisadi çerçevesinde geliştirdiği bu çözümleme, yönetişim kavramı ile doğrudan ilgilidir. İşlem maliyetleri ya da kurumsal pürüzler kıtas alındığında, en ekonomik ve etkin kurumsal yönetim yapısı firmadır *fakat* piyasanın varlığı yine de kaçınılmazdır. Öte yandan, piyasa, devlete göre daha ekonomik ve etkindir ve *üstelik* devletin bildik geleneksel yapısı kaçınılmaz değildir. Dolayısıyla, *siyasal/kamusal* devlet yapılarının; piyasa odaklı, firma-benzeri, *iktisadi/özerk* yönetim yapılarına dönüştürülmesi ve dolayısıyla siyasal/kamusal alanın piyasanın bünyesinde toplanarak ekonomik etkinliğin artırılması hem mümkün hem de arzu edilen ve amaçlanması gereken bir gelişmedir.

YKİ'nin kuramsal destek sağladığı ve bizim kapitalist dünya ekonomisinin 'egemen dorukları' olarak nitelendirdiğimiz Dünya Bankası, IMF, gibi uluslararası ekonomik kuruluşların Üçüncü Dünya ülkelerine dayattığı küresel yönetim modeli, bu bakımdan, özünde, bildik devlet kurumlarına yönelik bir 'büyük

dönüşüm’ tasarımidir. 1980’li yıllarda siyasal-iktisadi arenada dünya ölçüğünde hakimiyet kuran neoliberal/yeni-muhafazakar ‘Yeni Sağ’cı zihniyet, aynı dönemde kamu yönetimi yazısında hızla gelişen Yeni Kamu İşletmeciliği anlayışına dayanarak, 1990’lı yıllarda adeta sihirli birer sözcüğe dönüşen yönetişim, iyi yönetişim, kamu yönetişimi gibi kavramları, ekonomik performansın ve kalkınmanın başlıca koşulu olarak sunmuş ve geleneksel devlet yapılarını kökten değiştirmeyi amaçlayan yönetişim reformlarının pek çok ülkede uygulanmasına ön ayak olmuştur. Zaman içinde ‘minimal devlet’, ‘daha az devlet, daha çok piyasa’ söylemleri; yerini ‘girişimci devlet’, ‘esnek hükümet’, ‘kamu kurum ve kuruluşları arasında rekabet’, ‘maliyet bilinciyle (işletme mantığına göre) çalışan kamu sektörü yöneticileri’ gibi kavramlara bırakmıştır. Böylece geleneksel kamu yönetimi anlayışı, 1980’lerde kamu işletmeciliğinin ve 1990’larda kamu yönetişiminin ilkelerine dayandırılarak köklü bir değişimden geçirilmiştir.

Bu incelemelerimizin sonucunda, biz yönetişimi, kamu sektörünü özel sektörün çalışma kurallarına göre büsbütün yeniden yapılandırmayı ve dolayısıyla geleneksel devlet kurumlarını özel şirketlerin piyasa odaklı işletmecilik mantığına göre kökten değiştirmeyi amaçlayan aşırı-liberal, piyasacı-ortodoks bir tasarım olarak kavramsallaştırdık. Bu bağlamda, bizce, yönetişim, ulusal siyasal ve kamusal alanları, küresel sermayenin çıkarları doğrultusunda iktisadi ve özerk birimlere dönüştürmek için tasarlanmıştır. Uluslararası sermayenin, ulusal piyasalarda dilediği gibi at koşturmasını denetleyen, kısıtlayan ve önleyen kurumsal pürüzlerin ortadan kaldırılması için bildik devlet aygıtının küçültülmesinin yanı sıra, piyasa odaklı şirket-benzeri özerk bileşenlere ayrıştırılması; yukarıda dejindiğimiz devlet-piyasa karşılığına (piyasacı-ortodoks ‘kamp’ın özlemleri doğrultusunda) kökten ve kalıcı bir son vermenin etkin bir yolu olarak ortaya çıkmaktadır. devletin kendisinin piyasalandırıldığı böyle bir konjonktürde, sosyo-ekonomik sistem, hiçbir kayda değer kurumsal pürüzle karşılaşmadan, piyasanın katıksız yani görece pürüzsüz iktisadi mantığına göre düzenlenebilecek ve işletilecektir. Yönetişim, işte bu nedenle, devletin siyasal bütünlüğünü, iktisadi ve özerk birimlere ayırtmayı ve

devletin bildik iktisat politikası oluşturma ve uygulama kapasitesini bütbüten ortadan kaldırmayı amaçlayan aşırı-liberal, piyasacı-ortodoks bir tasarımdır. Açıkta ki yönetişim egemenliğini koruduğu sürece, devletçi-heterodoks kampın nostaljik politika önerilerini uygulamak olanaksızdır. Dolayısıyla, günümüzde yönetişime göre belirlenen kapitalist oyunun küresel kuralları bütbüten değiştirilmekçe, ekonomik performans ve kalkınma açısından devletten medet ummak gerçekçilik düzeyi son derece düşük bir umuttan ibarettir.

Üçüncü Dünya ülkelerinin devletçi kalkınma çabaları önünde güçlü bir engel olarak kavramsallaştırdığımız, katıksız piyasacı olarak nitelenebilecek küresel yönetişim modeli, kapitalist dünya sisteminin geleceği açısından ne anlama gelmektedir? Başka bir deyişle, yönetişim tasarıımı tam anlamıyla başarıya ulaşırsa; yani toplumsal yaşamın bütünlüğünü temel iki bileşen olarak sağlayan siyasal ve iktisadi alanları (devlet kurumlarını ve piyasa süreçlerini) ayırtırmakla kalmayıp, aynı zamanda birincisini de ikincisinin mantığına göre düzenlemeyi başarırsa, ortaya çıkacak olan yeni dünya düzeni sürdürülebilir mi? Devletin geleneksel yapısından kaynaklanan siyasal pürüzlerin bütbüten bertaraf edildiği katıksız bir piyasa düzeni, toplumsal yaşamın sürdürülebilirliği açısından ne gibi sonuçlar doğuracaktır? İşte bu sorulara yanıt vermek amacıyla, tezimizin dördüncü ve beşinci bölümlerinde, yaşamakta olduğumuz yönetişim çağını çözümlememizi ve anlamamızı kolaylaştıracak, uygun bir Kurumsal Uluslararası Siyasal İktisat (KUSİ) çerçevesi geliştirmeye çalıştık. Aşağıda bu yaklaşımı ana hatlarıyla aktardıktan sonra; böyle bir çözümleme çerçevesinden bakıldığından, yönetişimin, kalkınma çabalarının ve kapitalizmin geleceğine ilişkin doğurabileceği sonuçları öngörmeye çalışarak bu özet sonlandıracagız.

Söz konusu KUSİ çerçevesini, liberal iktisadi düşünçenin nihai biçimini olarak gördüğümüz küresel yönetişim modelince biçimlendirilmekte olan günümüzün dünya ekonomisini sosyal bilimsel bir bakış açısıyla ele alarak anlamak için geliştirmeye girişti. Bu çerçeveyi oluştururken, aydınlatıcı birer esin kaynağı

olarak kullandığımız dört temel araştırma programından yararlandık. Bu esin kaynaklarında bulduğumuz çözümleme çerçevelerini ve araçlarını; devlet, piyasa ve kapitalizm arasındaki ilişkilerin tarihsel bağlamlarını hesaba katarak günümüzün yönetişim çağına uyarlamaya ve bazı öngörülerde bulunmamızı sağlayacak özgün bir yaklaşım kurgulamaya çalıştık.

Birinci esin kaynağımız, yukarıda da bahsettiğimiz gibi Yeni Kurumsal İktisat'tan (YKİ) keskin çizgilerle ayırdığımız Asıl Kurumsal İktisat (AKİ). Kurucuları Thorstein B. Veblen ve John R. Commons olan AKİ, yirminci yüzyılın ilk otuz-kırk yılı boyunca neoklasik iktisada karşı oldukça etkili bir muhalif iktisat okulu olarak yükselmiş ve iktisadi düşünce tarihinde saygın bir konuma erişmiştir. AKİ'nin araştırma programını günümüzde de etkin biçimde sürdürten pek çok iktisatçı bulunmaktadır. Bu bağlamda, İngiliz iktisatçı Geoffrey Hodgson, AKİ'nin çözümleme çerçevesini benimseyen ve geliştiren çağdaş kurumsalcıların önde gelenlerindendir. Hodgson'ın, toplumsal sistemlerin kurumsal varlık ve sürdürülebilirlik koşullarını belirlemek amacıyla geliştirmiş olduğu iki temel sosyal bilimsel ilke, bizim çalışmamızın da yapı taşıları arasında yer almaktadır. Bunlar, aşağıda açıklayacağımız ‘baskınlık ilkesi’ ile ‘katışıklık ilkesi’dir.

İkinci esin kaynağımız, Macar sosyal bilimci Karl Polanyi ve onun İkinci Dünya Savaşı yıllarda yayımlanan *Büyük Dönüşüm* isimli ünlü kitabıdır. Bu kitapta, günümüzün dünya ekonomisinde olup bitenini anlamamızı kolaylaştıracak ve geleceğe yönelik öngörülerde bulunmamızı sağlayacak önemli bir sosyal bilimsel kavram yer almaktadır. Polanyi'nin, ondokuzuncu yüzyılda başta İngiltere olmak üzere Avrupa'da kurulan ve zaman içinde dünya ölçüğine yayılan ‘kendi kurallarına göre işleyen piyasa sistemi’ni çözümlemek amacıyla geliştirdiği bu kavramın İngilizcesi *embeddedness*. Bu kelimeyi, kullanıldığı ve geliştirildiği bağlamı dikkate alarak birebir Türkçeye çevirmek bize göre neredeyse olanaksızdır. Bu yüzden, biz burada, biraz da kendi yorumumuzu katarak, ‘embeddedness’ kavramını şöyle ifade etmeyi uygun buluyoruz: İktisadi süreçler (piyasa) ile siyasi kurumların (devletin) iç içe

geçmiş olması; ekonomi ve siyasetin birlikte toplumsal bir bütün oluşturması. Dolayısıyla, aşağıda bu kavrama dephinirken, ‘embeddedness’ yerine, kısaca, ‘siyasal iktisadi bütünlük’ demeyi tercih edeceğiz.

Üçüncü esin kaynağıımız, Avusturyalı iktisatçı Joseph Schumpeter ve onun yine İkinci Dünya Savaşı yıllarında yayımlanan *Kapitalizm, Sosyalizm ve Demokrasi* isimli kitabı. Bu kitapta da bizim çalışmamızı biçimlendiren önemli bir kavram var. Kökeni biyolojiye dayanan ve Schumpeter'in sosyal bilimsel bir terim olarak kullandığı bu kavram İngilizcesiyle *symbiosis*, Türkçesiyle ortak yaşama; yani, başka türden iki canının dengeli ve sıkı bir işbirliği ile birbirinden yararlanarak yaşamaları durumu. Schumpeter, İkinci Dünya Savaşı yıllarda, kapitalizmin er geç çökeceği öngörüsünde bulunmuş ve bu öngörüsünün temel dayanaklarından biri olarak kapitalist ekonomi ile feodal dönemden gelen siyasal ve kültürel kurumlar arasındaki ortak yaşamın bozulmasını göstermişti. Bizim KUSİ ismini verdigimiz yaklaşımın özünü, Schumpeter'in ‘ortak yaşama’ kavramı ile Polanyi'nin ‘siyasal iktisadi bütünlük’ kavramı arasındaki koşutluk oluşturmaktadır. Bu noktada, Hodgson'in, ‘baskınlık’ ve ‘katılıklık’ ilkelerini, önemli ölçüde Polanyi ve Schumpeter'den etkilenederek geliştirdiğini ve bu nedenle bize esin kaynağı olduğunu belirtmemizde yarar var.

Dördüncü ve son esin kaynağıımız, Fransız iktisat tarihçisi Fernand Braudel'in Fransızca orijinalini 1970'li yıllarda yazdığı, üç ciltten oluşan *Uygarlık ve Kapitalizm* isimli kitabıdır. Braudel, bu kitapta kapitalizmi ve piyasayı hiç de alışık olmadığımız bir biçimde kavramsallaştırmakta ve devleti bu çerçeveye nasıl oturtabileceğimizin ipuçlarını vermektedir. Kapitalizmi tarihsel bir dünya sistemi olarak ele alan Braudel'in çözümlemesini, Polanyi ve Schumpeter'i sentezleyerek elde ettiğimiz kurumsal siyasal iktisat çerçevesine uluslararası bir boyut katabilmek ve bugünü anlamamıza elverişli bir KUSİ çerçevesini tamamlamak amacıyla kullandık.

KUSİ yaklaşımımızı, Hodgson'ın geliştirdiği ve yukarıda değindiğimiz iki sosyal bilimsel kurumsalçı ilkeyi kısaca açıklayarak anlatmaya başlayalım. Bu ilkelerden ilki, 'baskınlık ilkesi'dir. Baskınlık ilkesine göre, toplumsal sistemlerin, düzenleme ve üretim biçimleri açısından diğerlerine göre baskın veya başat olan temel nitelikleri vardır. Bu baskın nitelikler, sistemin özünü ve işleyiş biçimini belirler. Örneğin, iktisadi mantığın baskın olduğu, yani üretim ve değişim ilişkilerinin piyasa kurallarına göre belirlenip düzenlendiği bir toplumsal sistemde; piyasa, siyasal bir kurum olan devlete göre daha baskındır. Benzer biçimde, üretimin ve değişimin merkezi planlama kurallarına göre belirlenip düzenlendiği bir toplumsal sistemde; devlet, iktisadi bir kurum olan piyasaya göre daha baskındır. Baskınlık ilkesini asıl anlamlı kılan ise 'katışıklık ilkesi'dir. Katışıklık ilkesine göre, toplumsal sistemler, baskın niteliklerinin yanı sıra baskın olmayan, sistemin temel niteliklerinden farklılık gösteren, yani katıslılık sağlayan öğeler içerir, hatta içermek zorundadır. Bu 'katıslılıklar' sistemin sürdürülebilirliğini sağlar. Daha açık bir ifadeyle, toplumsal sistemlerin sürdürülebilirliği sistemin 'katıksızlaşmamasına' (saflaşmamasına) bağlıdır.

Toplumsal sistemler, yalnızca baskın öğeleriyle değil, aynı zamanda katıslılıklarıyla birlikte var olur ve varlıklarını südürebilir. Baskın sistemik öğeler ile baskın olmayan ve katıslılık sağlayan farklı sistemik öğelerin bir arada bulunması; başka bir ifadeyle kurumsal çeşitlilik; toplumsal sistemlerin anti-sistemik şoklara karşı direnç göstererek ayakta kalmasını sağlayan başlıca ön koşuldur. Örneğin, kendi kurallarına göre işleyen piyasa sistemi, gerekiğinde (sosyal güvenlik gibi) toplumsal korunma araçlarını harekete getiren siyasal kurumları (yani devleti) sistemden soyutladığı ölçüde çökmeye mahkumdur. Benzer biçimde, toplumsal bütünlüğün ekonomik bileşeni olan piyasayı bütütün ortadan kaldırın katıksız bir merkezi planlama da er geç çökmeye mahkumdur. Toplumsal sistemlerin sürdürülebilirliği, ekonomi ve siyasetin bir arada, *katıksızlaşmadan* işlemesine bağlıdır. Başka bir deyişle, toplumsal yaşamın sağlıklı biçimde sürmesi için siyasal iktisadi bütünlüğün

bozulmaması gereklidir. Toplumsal yaşam, ne piyasanın katıksız iktisadi mantığına, ne de devletin katıksız siyasi mantığına indirgenebilir.

Toplumsal sistemlerin sürdürülebilirliği söz konusu olduğunda, hem Polanyi'nin hem de Schumpeter'in bu iki kurumsalçı ilkeyi dolaylı olarak benimsediklerini ve bir çözümleme aracı olarak kullandıklarını görüyoruz. Daha doğrusu, Hodgson, bu ilkeleri, AKİ'nin modern versiyonunun yapı taşları olarak geliştirirken, Polanyi'nin ve Schumpeter'in kurumsalçı çözümleme çerçevelerinden esinlenmiştir. Bu bağlamda, Polanyi'nin kendi kurallarına göre işleyen piyasa sistemi çözümlemesini ve Schumpeter'in kapitalizmi kavramsallaştırmamasını, baskınlık ve katıksılık ilkelerinin ışığında, birbirini tamamlayan kurumsalçı incelemeler olarak ele almakta yarar vardır.

Polanyi'nin 1944'te yayımlanan *Büyük Dönüşüm* kitabının açılış cümlesi şöyledir: "Ondokuzuncu yüzyıl uygarlığı çöktü". İngiltere'de temelleri atılan, oradan Kita Avrupası'na ve oradan da dünya ölçüğine yayılan 'ondokuzuncu yüzyıl uygarlığı', toplumsal bir sistem olarak kendine özgü iktisadi ve siyasi kurumllarıyla birlikte, ancak 1815'ten 1914'e kadar varlığını sürdürmemiştir. Bu dönemde, liberal iktisadi düşüncenin uygulayıcıları; yani, o zamanın piyasacı-ortodoksları, 'Bırakınız yapsınlar, bırakınız geçsinler' diye özetlenen iktisadi liberalizm ilkesine dayanarak, toplumsal yaşam yapılarını katıksız bir piyasa mantığına indirmeye çalışmıştır. Ancak, liberal pratik bunu başardığı ölçüde, toplumun geniş kesimlerinin katıksız ve acımasız piyasa kuralları altında ezilmesinden kaynaklanan karşıt bir hareketle karşılaşmıştır. Toplumsal sistemi iktisadi katıksızlaşmaya doğru sürükleyen liberal hareket, toplumsal korunma refleksi olarak adlandırılabilen gündün yol açtığı bir anti-sistemik hareketle yüz yüze kalmıştır. Bilinçli liberal çabalarla böyle bir iktisadi katıksızlaşmaya doğru yönlendirilen bir sistemde, toplumun doğal korunma aracı siyasal kurumlar yani devlettir. Başka bir deyişle, liberal pratik, siyasal iktisadi bütünlüğü bozarken, bu katıksızlaşmayı önlemek ve toplumsal yaşamı sağlıklı biçimde sürdürmek için siyasal kurumlar harekete geçirilmiştir. Sonuç olarak, Birinci Dünya Savaşı'nın sonundan Büyük Buhran

yıllarına uzanan dönemde boyunca uygulanan müdahaleci devlet politikalarının ortaya çıkışını; yıkıcı ve ezici liberal politikaların doğal bir sonucu olmanın yanı sıra, Polanyi'nin 'ondokuzuncu yüzyıl uygarlığı' dediği kendi kurallarına göre işleyen piyasa sisteminin dağılması ve çökmesi anlamına da geliyordu. Kısacası, kendi kurallarına göre işleyen piyasa sistemi, siyasal iktisadi bütünlüğü bozmayı başardığı ölçüde, kendi başarısının kurbanı olmaya mahkumdu.

Polanyi'nin çözümlemesinde, ondokuzuncu yüzyıl uygarlığına özgü kendi kurallarına göre işleyen piyasa sisteminin ayırt edici özelliği, 'kurmaca' mallardır. Kurmaca mallar, yani gerçekte piyasada alınıp satılmak üzere üretilmemiş olan toprak, işgücü ve para, ondokuzuncu yüzyıl uygarlığı boyunca sanki birer mal gibi ve *sistematik* olarak piyasada alınıp satılmaya başlamıştır. Toplumun temel gereksinimlerini sağlamakla başlıca öğeleri olan toprak ve işgücü ile bu gereksinimlerin karşılanması kolaylaştırıp hızlandıran basit ve yararlı bir değişim aracı olan paranın, piyasada gerçek mallarmış gibi işlem görmesi, toplumsal dokunun hızla yıpranması anlamına geldiği için sürdürülebilir bir süreç degildi.

Bu bağlamda, Polanyi ondokuzuncu yüzyıl uygarlığının çöktüğünü ilan ederken, İkinci Dünya Savaşı sonrasında, kendi kurallarına göre işleyen piyasa sisteminin yerine siyasal iktisadi bütünlüğü yeniden sağlayacak, mal ve hizmet piyasalarının devletçe denetlendiği ve (bizim yorumumuza göre) toprak, işgücü ve para piyasalarının aşama aşama ortadan kalktığı (veya bu piyasaların toplumsal dokuyu yıpratma dinamiklerine kalıcı önlemlerin getirildiği) yepyeni bir dünya düzeni öngörüyor. Yani, Polanyi gerçek malların (piyasada alınıp satılmak üzere üretilmiş mal ve hizmetlerin) mübadele edildiği ve gerektiğinde devletçe denetlenen gerçek piyasalara değil, kurmaca malların alınıp satıldığı kurmaca piyasalara karşıydı. Yukarıda kapitalizmin Keynesçi ve kalkınmacı Altın Çağ'ı olarak degindigimiz, kabaca 1945-1973 arası kapsayan dönemde boyunca, gerçek piyasalar Polanyi'nin öngördüğü gibi devletçe denetlenmiş ve bu piyasalara gerekiğinde toplumun temel gereksinimleri göz önünde tutularak

müdahale edilmiştir. Ancak bu dönemde, (her ne kadar yine devletçe yoğun biçimde denetlense de) toprak, işgücü ve para piyasaları varlıklarını sürdürmüştür ve bu kurmaca piyasaların toplumsal dokuyu yıpratma dinamikleri üzerinde kurumsal ve niteliksel bir köklü değişime gidilmemiştir. Bu bakımından, İkinci Dünya Savaşı sonrasında, Polanyi'nin öngörüsünün tam anlamıyla gerçekleşmediğini, yani gerçek bir 'büyük dönüşüm'ün yaşanmadığını söyleyebiliriz. Bu, aynı zamanda, ondokuzuncu yüzyıl uygarlığının büsbütün çökmediği anlamına da gelmektedir!

Refah devleti ve kalkınmacı devlet kurumlarının baskın öğeler olarak ortaya çıktığı Altın Çağ'da, kapitalist dünya sistemi, 1914-1945 arasında yaşanan çöküş sürecinden kurtulabilmek için ondokuzuncu yüzyıl uygarlığının ortadan kaldırıldığı siyasal ve kamusal katılıklıkları yeniden oluşturmaya çalışmış ve büyük ölçüde başarılı olmuştur. Bu bakımından, 1945-1975 dönemini, sistemin bekası açısından siyasal iktisadi bütünlüğün *zorunlu* olarak yeniden oluşturulduğu bir kurtuluş süreci olarak düşünebiliriz. Kapitalist sistem, yeterince piyasa-dışı (siyasal ve kamusal) katılıklık oluşturdugunda yeniden baskın niteliğine, yani piyasaya ve liberal pratiğe dönüş yapmıştır. Bunalımlı geçiş yılları olan 1970'leri, katılıksızlaşmanın yeniden başladığı ve siyasal iktisadi bütünlüğün hızla bozulduğu 1980'ler izlemiştir. Sonrasında, yukarıda dejindiğimiz ve başlangıcı 1990'lı yıllara denk gelen yönetimim çağ ile birlikte Altın Çağ'ın 'küçük dönüşüm'ünden eser kalmamıştır.

Bu noktada, İkinci Dünya Savaşı sonrası için, Polanyi'ninkine benzeyen bir çöküş ve 'büyük dönüşüm' süreci öngören Schumpeter'e dönmemizde yarar var. Schumpeter, kapitalizmin doğası gereği kendi başarısının kurbanı olacağını ve yerine bazı öğeleri piyasa sosyalizmini çağrıştıran başka ve yeni bir düzenin geleceğini düşünmüştü. Schumpeter'in kapitalizmin çökeceği öngörüsünün temel dayanağı; salt iktisadi kıstaslarla değerlendirildiğinde çok başarılı görünen kapitalist ekonominin aşırı devingen 'halet-i ruhiye' sidir. Kapitalist ekonomi, sürekli ve düzenli olarak teknolojik yenilikler yaratın; durmaksızın kendisini yenileyen; eskiyen üretim süreçlerini ve ürünlerini hızla

bertaraf edip yerine yenilerini koyan ve böylece hep ‘genç’ kalan bir ‘yaratıcı yıkım’ sürecidir. Kapitalizmin iktisadi bileşeni tek başına ve kendi içinde ele alındığında, bu sürecin yaratıcılık özelliği, yıkıcılık özelliğinden daha güçlündür.

Ancak, Schumpeter'e göre, kapitalizm, ekonomiden ibaret değildir. Daha doğrusu, kapitalizm ekonomiden ibaret olamaz. Çünkü, kapitalizmi, bir bütün olarak bir arada tutan, kapitalizm öncesine ait (feodal) siyasal ve kültürel kurumlardır. Kapitalizmin bu siyasal ve kültürel bileşeni, aşırı devingen ekonomiyi çevreleyen ve koruyan bir kabuk gibidir. Kapitalizm, Sanayi Devrimi öncesinde henüz yeni yeni olgunlaşırken, iktisadi hayatın başat aktörü olarak yükselen burjuvazi ile siyasi hayatın eskiden beri düzenleyicisi konumunda bulunan aristokrasi arasında bir ortak yaşama alanı kurulmuştu. Bu ortak yaşama sürecinde, burjuvazi aristokrasiyi ekonomik olarak desteklerken, aristokrasi de burjuvaziyi siyasi olarak koruyup kolluyordu. Başka bir deyişle, kapitalizmin, ondokuzuncu yüzyıldaki olgunluğuna erişebilmesi için böyle bir siyasal iktisadi bütünlüğün ön koşul olarak önceden sağlanması gerekiyordu. Bu ortak yaşama veya siyasal iktisadi bütünlük sürdürülce, kapitalizmin çökmesi için bir neden yoktu. Ancak, Fransız Devrimi ve Sanayi Devrimi uzun dönemde burjuvazinin liberalleşmesine ve aristokrasinin muhafazakarlaşmasına neden oldu. Burjuvazi, ekonomik işlerde artık kendisine ayak bağı olmaya başlayan feodal kurumlardan ve aristokrasiden kurtulmanın yollarını arıyor, aristokrasi ise eski sistemi sürdürmek için mücadele ediyordu. Kazanan burjuvazi oldu ve eskinin siyasal ve kültürel kurumlarını bir bir yıkarak, ortak yaşamayı bozmaya ve kapitalist ekonomiyi olabildiğince devingen bir süreçe dönüştürmeye başladı.

Bu noktada, Schumpeter'e göre, kapitalizmin bu aşırı devingen iktisadi bileşeni, sistemin sürmesi açısından yaşamsal öneme sahip olan siyasal ve kültürel kurumları yok ettiği ölçüde, uzun dönemde kendi kuyusunu kazmaktadır. Başka bir deyişle, Schumpeter de Polanyi gibi sistemin katıksızlaşlığı ölçüde çökmeye mahkum olduğunu düşünmüştür. Bu bakımdan, ondokuzuncu yüzyılın başlarından İkinci Dünya Savaşı'na kadar uzanan süreci,

Schumpeterci bir bakış açısıyla, kapitalizmi var eden ortak yaşama biçiminin yıpratıldığı ve çöküş koşullarının kendiliğinden hazırlandığı bir dönem olarak yorumlamak mümkündür. Ancak, sonuca, ne Polanyi'nin öngördüğü 'büyük dönüşüm' ne de Schumpeter'in öngördüğü kapitalizmin kendiliğinden çöküşü gerçekleşmiştir. Dolayısıyla, kapitalizmin katıksızlaşma eğiliminin yanı sıra, katıksızlaşmayı giderici bir iç dinamiği olabileceğini de düşünmemiz gereklidir. Fransız tarihçi Fernand Braudel'e tam da bu noktada başvurmamız yararlı olacaktır.

Braudel'in insanı düşünmeye zorlayan, sıra dışı ve çoğu sosyal bilimciye göre tartışmalı bir fikri vardı: Kapitalizm ve piyasa zıt kutuplardır ve birincisi ikincisinin düşmanıdır. Bu fikir, liberallerin ve Marksistlerin bile hemfikir olduğu, bildik ve alışılmış temel bir önermeyi tam da tersine çevirmektedir. Sosyal bilimlerde, kapitalizm ve piyasayı adeta birbirinden ayrılmaz Siyam ikizleri gibi kavramsallaştırmak çok eski ve hala egemen olan bir gelenektir. Kapitalizm dendığında pek çok insanın aklına hemen piyasa ekonomisi gelir. Bu ikisi neredeyse aynı şeydir veya birbirlerinin karşılıklı varlık sebepleridir. Braudel, işte bu geleneksel kavramsallaştırmayı, ters yüz etmiş ve kapitalizm ile piyasanın yalnızca birbirinden farklı iki iktisadi alanı değil, aynı zamanda karşıt zihniyetlerin ve eylemlerin barındığı zıt kutupları temsil ettiğini öne sürmüştür.

Braudel'in, kapitalizmi, dünya sistemi ölçüngde ele aldığı, yani çözümleme birimi olarak ulus-devletleri değil ulus-devletler arasında kurulmuş uluslar ötesi siyasi ve iktisadi sistemi kullandığını belirtmeliyiz. Böylece, kapitalizm, siyasi ve iktisadi güç biriktirilen, tekeli veya oligopolcü ve esas olarak finansal güç odaklarının yer aldığı uluslar ötesi bir alanı temsil eder. Piyasa ise iktisadi gereksinimlerin güç esasına göre değil, adil rekabet yoluyla karşılıklılık ilkesine göre giderildiği 'ideal' bir iktisadi alandır. Her ne kadar Braudel'in çözümlemesinde devlet doğrudan belirleyici ve düzenleyici bir etken olarak yer almıyor olsa da, adil rekabete dayanan ve kapitalizmden keskin çizgilerle ayrılan bu 'ideal piyasa' tasarımlı; bizim yorumumuza göre, Polanyi'de ve

Schumpeter'de tespit ettiğimiz 'siyasal iktisadi bütünlük' ve 'ortak yaşama' kavramlarını içinde barındırmaktadır. Başka bir deyişle, Braudel'in, tarihsel bir dünya sistemi olarak kavramsallaştırdığı kapitalizmin düşmanı olduğu şey, gelenekselleşmiş anlamıyla bildiğimiz serbest piyasa (veya kendi kurallarına göre işleyen piyasa sistemi) *değil*, devlet-kaynaklı siyasal katılıklıkları gereği gibi içeren ve tam da bu nedenle 'ideal' olan piyasadır. Bu açıdan baktığımızda, liberallerin hep söyleye geldiğinin aksine, zıt kutuplar ve birbirine düşman olan devlet ve piyasa değil, kapitalizm ve piyasadır.

Bu bağlamda, biz Braudel'in çözümlemesinden önemli olduğunu düşündüğümüz şu sonucu çıkarıyoruz: Kapitalizm, tarihsel olarak, hem piyasayı hem de devleti gereğinde katılıksızlaşmak, gereğinde de katılıksızlaşmayı gidermek için başarıyla kullanılmıştır. Kapitalizmin uzun ömrünün sırrı, piyasayı ve devleti, sağlıklı bir kapitalist ortak yaşamayı bütbüten ortadan kaldırımayacak biçimde beceriyle kullanmış olmasıdır. Hem piyasayı kullanarak katılıksızlaşmaya yönelik, hem de oluşan çöküş tehlikelerine karşı devleti kullanarak bütbüten katılıksızlaşmaktan yani çökmekten kurtulmuştur.

Çıkarlığımız bu sonuç, aynı zamanda, yine Braudel'in kapitalizmin uzun tarihi boyunca süre geldiğini tespit ettiği sistematik sermaye birikimi döngülerini kurumsal açıdan açıklamaktadır. Braudel'in çözümlemesine göre, on üçüncü yüzyıldan itibaren İtalyan şehir devletleriyle birlikte yavaş yavaş gelişmeye başlayan ve sırasıyla Hollanda'nın, İngiltere'nin ve ABD'nin siyasi-iktisadi hegemonyalarına sahne olan kapitalist dünya sistemi, düzenli olarak birbirini izleyen maddi genişleme ve finansal genişleme evrelerinden geçmektedir. Günümüzün onde gelen dünya sistemleri çözümlemecilerinden birisi olan Giovanni Arrighi, *Uzun Yirminci Yüzyıl* isimli kitabında, Braudel'in bu tarihsel tespitini geliştirerek, Belçikalı tarihçi Henri Pirenne'nin ismiyle anılan 'Pirenne Sarkacı' olgusuna anlamlı bir gönderme yapmıştır. Pirenne, kapitalizmin uzun tarihinin, birbirini izleyen 'ekonomik düzenleme' ve 'ekonomik özgürlük'

dönemlerinden olduğunu öne sürmüştür ve kapitalist sarkacın devlet müdahalesi ve serbest piyasa arasında düzenli olarak salındığını saptamıştır.

Tüm bunları, yukarıda dejindiğimiz kurumsal ilkelerin (baskınlık ve katıslılık ilkelerinin) ışığında yeniden yorumlayacak olursak, öncelikle kapitalizmin doğası gereği katıslılıkla eğiliminde olduğunu ve sistem çökme tehlikesiyle karşı karşıya kaldığında katıslılıklamayı giderici önlemleri alarak yeniden canlandığını belirtmemiz gereklidir. Bu bağlamda, finansal genişleme ve maddi genişleme evrelerini, sırasıyla, katıslılıkla eğilimine girilen ve katıslılıklaşmanın giderildiği döngüler olarak düşünebiliriz. Maddi genişleme dönemlerinde kapitalistler, daha çok üretime yönelik fiziksel sermaye birikimine yönelmektedir. Finansal genişleme dönemlerinde ise zaman içinde fiziksel sermayenin getirisinin azalması sonucunda getirişi görece yükselen finansal sermaye birikimi öncelikli amaca dönüştürmektedir. Doğası gereği akışkan olan finansal sermayeden en yüksek getiriyi elde etmek için en elverişli birikim rejimi, dünya sistemi ölçüğünde ekonomik özgürlük sağlayan serbest piyasadır. Dolayısıyla, finansal genişleme dönemlerinde, kendi kurallarına göre işleyen piyasa sisteminin eşgündümüne ihtiyaç vardır. Ancak, yukarıda dejindiğimiz gibi, böyle bir piyasa düzenine göre işleyen kapitalizm, sistemi olduğu gibi katıslılıklaşmaya doğru sürüklendiği (yani, Polanyi'ye göre toplumsal dokuyu yıprattığı ve Schumpeter'e göre sistemi bir arada tutan siyasal ve kültürel kurumları çökerttiği) ölçüde er geç son bulmaya mahkumdur. Başka bir deyişle, finansal genişleme evresine gerektiği gibi ve zamanında son verilmemezse, tarihsel bir dünya sistemi olan kapitalizm 'tarih olma' tehlikesiyle karşı karşıya kalır. Ancak, kapitalizm, uzun tarihi boyunca, böyle tehlikeleri, serbest piyasadan devlet gündemündeki ekonomik düzenleme evrelerine dönerek ve böylece katıslılıklaşmayı gidererek bertaraf etmeyi başarmıştır. Bu nedenle, finansal genişleme evrelerini izleyen maddi genişleme evrelerini (görece çok daha az akışkan olan) fiziksel sermayenin devletçi katıslılıklar yardımıyla biriktirildiği yeniden canlanma dönemleri olarak düşünebiliriz.

Kapitalizmin kurumsal işleyiş mekanizmasını çözümlemek amacıyla geliştirmeye girdiğimiz ve KUSİ olarak adlandırdığımız bu çerçeve, çalışmamızın ana konularını oluşturan kalkınma ve yönetim bağımlarıyla nasıl ilişkilendirilebilir? Üçüncü Dünya ülkeleri için (yetkin bir örneğini Ha-Joon Chang ve Ilene Grabel'in başta bahsettiğimiz kitabında bulduğumuz) devletçi-heterodoks bir kalkınma programı, KUSİ yaklaşımımızın ışığında yeniden nasıl değerlendirilebilir? Devleti içерiden ve kökten piyasalaştırmak gibi aşırı-liberal bir amacı olduğu sonucuna vardığımız küresel yönetim modelini, KUSİ çerçevesinin içine nasıl yerleştirmeliyiz? Tezimizin özeti, bu soruları kısaca yanıtlayarak son vereceğiz.

Akademik çevrelerde ve politika oluşturan ve uygulayan kuruluşlarda, devlet-piyasa karışlığının yansımıası sonucunda devletçi-heterodoks ve piyasacı-ortodoks olmak üzere iki karşı görüşün süre geldiğinin gözlemlenebileceğine en başta degenmişlik. Ekonomik performans ve kalkınma için devletin kullanılması gerektiğini düşünen heterodokslara karşı piyasanın kendi haline bırakılması gerektiğini söyleyen ortodokslar, günümüzde de bu karışılığı sürdürmektedir. Biz ise geliştirdiğimiz KUSİ yaklaşımı ışığında, devletin devletçilerin düşündüğü gibi ve piyasanın piyasacıların söylediği gibi doğrudan ve etkili birer kalkınma aracı olarak kullanılamayacağını iddia etmek durumundayız. Kapitalizmi dünya sistemi ölçünginde siyasi ve iktisadi güç biriktirilen uluslar ötesi bir oyun olarak kavramsallaştırdığımızda, oyunun kuralları uyarınca ne devlet ne de piyasa kapitalizmin ve kapitalistlerin çıkarlarından bağımsızdır. Başka bir deyişle, oyunun kuralları tarihsel olarak belirlenmiş olduğu ölçüde ve kökten değiştirilmediği sürece, devlet de piyasa da kapitalizme hizmet eden kurumsal araçlar olmayı südürecektil. Kapitalizm, finansal genişlemeye ihtiyaç duyduğunda piyasayı, maddi genişlemeye ihtiyaç duyduğunda devleti baskınlaştırarak tarihsel kurallarını geleceğe doğru taşımaya devam edecektir. Bu bağlamda, ülkelerin veya ulus-devletlerin ekonomik olarak gelişmesinden ve kalkınmasından çok, kapitalizmin kendisinin bir dünya sistemi olarak gelişmesinden veya kalkınmasından bahsedilebilir. Dünya sisteminin kendisi gelişirken veya kalkınırken, ulus-

devletler düzeyinde münferit birtakım gelişme veya kalkınma deneyimlerine rastlanmasından daha doğal bir şey olamaz. Ancak, bu gelişme veya kalkınma deneyimlerinin, devlet ya da piyasa sayesinde başarılılığını öne sürmek ve bunları örnek alınması gereken modeller olarak sunmak, kapitalist oyunun tarihsel mantığını ve sömürgen kurallarını göz ardı etmek anlamına gelir.

Bu nedenle, günümüzün devletçi-heterodoks iktisatçılarının, kapitalist Altın Çağ'a nostaljik bir öykünmeyle, kalkınma için ısrarla devleti önermelerini iki biçimde yorumluyoruz. Birincisi, develetçi-heterodoks iktisatçılar, kapitalist oyunun kurallarını olduğu gibi kabul ediyor olmalıdır. Devlet-piyasa karşılaşlığının taraflarından biri olmak, ister istemez, oyunun kuralları içinde politika önerileri geliştirmeyi gerektiriyor olabilir. Günümüzde, piyasacı-ortodoksların kapitalizmin mevcut küresel kurallarını olduğu gibi kabul etmesinde şaşılacak bir şey yok. Ancak, kimi zaman anti-sistemik olma iddiasında bulunan devletçi-ortodoksların, kapitalizmin hem devleti hem de piyasayı kullanmaktadır olağanüstü tarihsel becerisini göz ardı edercesine, ısrarla devlet-piyasa karşılaşlığının taraflarından biri olması, bizce aşırı bir iyimserlikten kaynaklanmaktadır.

İkincisi ve daha önemlisi, bugünlerde yönetimim çağında yaşadığımızı asla unutmamamız da yarar var. Yukarıda deanediğimiz gibi, yönetimim, bildik devlet kurumlarını içeren piyasalaştırarak; devletin iktisat politikası oluşturma ve uygulama, piyasanın toplumsal sakıncalarına karşı sosyal güvenlik ve korunma sağlama, gelirleri ve kaynakları ezilen kesimlerin lehine yeniden dağıtma gibi kapasitelerini bir bir ortadan kaldırılmaktadır. Bu noktada, yönetimim, 'Bırakınız yapsınlar, bırakınız geçsinler' veya 'Daha az devlet, daha çok piyasa' söylemleriyle özetlenebilecek bildik liberal ilkelerin ötesinde bit tasarım olduğunu görmemiz gerekiyor. Bildik liberal ilkeler doğrultusunda öngörülen, devletin ekonomideki rolünün ve devletçi politikaların piyasacı politikalar lehine azaltılmasından ibaretti. Başka bir deyişle, bildik liberal ilkeler, özünde, devletin *nicelegine* yönelikti. yönetim ise doğrudan devletin kurumsal yapısını yani *niteliğini* dönüştürmeyi hedefleyerek yalnızca

*politikalara* değil aynı zamanda *kurumlara* yönelik köklü bir dönüşüm öngörmektedir. Kurumsal yapılar niteliksel olarak veriyken, yapılmış politika değişikliklerini tersine çevirmek mümkün ve görece kolaydır. Ancak, kurumsal yapılar niteliksel olarak dönüştürüldüğünde, eski kurumsal çerçeveyi yeniden kurmak ya imkansız ya da çok zordur. Bu noktada, küresel düzeyde aşırı-liberal ve kapitalist bir tasarımlı olan yönetim başarıya ulaşlığı ölçüde, devletçi-heterodoks iktisatçıların, kalkınma reçetelerinde yegane deva niyetine yer alan devletten eser kalmayacaktır.

Gerek ondokuzuncu yüzyılın liberal devleti, gerekse Altın Çağ'ın sosyal devleti bizim kavramsallaştırmamıza göre, *kurumsal niteliği aynı olan* ‘bildik devlet’ tanımımıza girmektedir. Küresel kapitalist oyunun günümüzdeki kuralları uyarınca çağdaş bir devlet tasarımlı olarak oluşturulmaya çalışılan ‘yönetişim devleti’ ise ‘bildik devlet’ten kurumsal niteliği açısından bütünsüzlükten farklıdır. Bu bağlamda, hem liberal devleti hem de sosyal devleti ulus-devlet kategorisine dahil etmek mümkündür. Burada, bir benzettmeye dayanarak şöyle bir tanım geliştirebiliriz: Eğer ulus-devlet ulusal sınırları tanımlanmış siyasal bir coğrafya içinde ulusal kamu otoritesi işlevini gören kurumsal bir yapıya, yönetim devleti, sınırları küresel piyasa tarafından belirlenmiş *katıksız* bir iktisadi süreç içinde küresel kapitalist otoriteye hizmet eden bir tür ‘piyasa-devlet’tir.

Yönetişim tasarıımı, özünde, Yeni Kurumsal İktisat’ın sağladığı kuramsal desteği dayanarak, değişim ilişkilerinde ortaya çıkan işlem maliyetlerini (kurumsal pürüzleri) azaltmayı ve böylece ekonomik etkinliği artırmayı amaçlamaktadır. Bunu gerçekleştirmek için başta devlet olmak üzere piyasa-dışı kurumları piyasa alanına taşımak ve piyasalaştırmak amaçlanmaktadır. Buna, bildik devletin, yönetim devletine dönüştürülmesi amacı da diyebiliriz. Öte yandan, biz, geliştirdiğimiz KUSİ çerçevesinde Asıl Kurumsal İktisat'a dayanarak, toplumsal sistemlerin sürdürülebilirliğini, baskınlık ve katıksızlık olarak adlandırılan iki kurumsalcı ilkenin ışığında irdeledik. Bu bağlamda, küresel yönetim modelinin, piyasanın devlete karşı baskınlığını geri

dönülmez biçimde pekiştirmeyi ve kalıcı olarak katıksız bir piyasa sistemi oluşturmayı hedeflediğini söylemek yanlış olmaz. Peki, yönetim tasarıımı çerçevesinde, bu hedefe ulaşmak veya yaklaşmak, tarihsel bir dünya sistemi olan kapitalizmin geleceği açısından ne anlama gelmektedir?

Yönetişim modeli, eğer bizim iddia ettiğimiz gibi devletin yalnızca piyasa-dostu olması değil, aynı zamanda piyasa-gibi olması anlamına geliyorsa; böyle bir yönetim devleti, kapitalist dünya sisteminin döngüsel olarak gereksinim duyduğu katıksızlaşmayı giderici önlemleri harekete geçirme kapasitesinden yoksun bir piyasa-devlet olacaktır. Başka bir deyişle, yönetim devleti; kalkınma politikaları oluşturma ve uygulama, sosyal güvenlik ve korunma sağlama, bölüşüm ilişkilerini yeniden düzenleme gibi ‘piyasa-karşılı’ işlevlerinden kurumsal ve niteliksel olarak arındırıldığı ölçüde, kapitalist sistemin kendini ‘fiziksel’ olarak yenilemek zorunda kaldığı maddi genişleme dönemlerinde üstleneceği ekonomik düzenleme kapasitesini de yitirmiş olacaktır. Braudel, finansal genişleme dönemlerini, mevcut kapitalist hegemonya açısından döngüsel bir ‘sonbahar belirtisi’ olarak nitelemiştir. Finansal genişleme döneminin sonunda, dünya sisteminin ‘egemen dorukları’nda hegemonya sahipliği (Hollanda’dan İngiltere’ye ve İngiltere’den ABD’ye) el değiştire gelmiştir ve kapitalist dünya tarihi böylece sürüp gitmiştir. ‘Finansal sonbahar’ dönemlerini izleyen ‘soğuk kiş’lar, ‘egemen doruklar’daki nöbet değişiminin gerçekleştiği çalkantılı geçiş dönemleriyyken, ufukta beliren ‘maddi ilkbahar’ sistemin yeni bir hegemonik güç altında kendini yenilediği canlanma evreleri ola gelmiştir. Bu noktada, sistemin sürdürülebilirliği açısından zorunlu olan maddi genişlemenin gerçekleşmesi bildik devletin dünya sistemi ölçünginde varlığını korumasına bağlıdır. Başka bir deyişle, bildik devletin ortadan kalkması, pekala tarihsel bir dünya sistemi olan kapitalizmin ‘tarih olması’ anlamına gelebilir.

Kısacası, kapitalizm, 1990’lara gelene kadar, devletin, gerektiğinde katıksızlaşmayı önleyen bildik kurumsal yapısını kökten değiştirmeye hiç girişmemiştir. Dolayısıyla, bizim kavramsallaştırmamıza göre, yönetim,

kapitalizmin sürdürülebilirliğini sağlayan geleneksel devleti bilinçizce de olsa ortadan kaldırabilecek aşırı-liberal bir tasarımdır. Yani, yönetim uzmanlarının çabaları sistemin bütünlüğü açısından amaçlanmamış sonuçlar doğurabilir. Liberaller ve kapitalistler, belki de tarihte ilk kez, farkında olmadan bindikleri dalı kesiyor olabilirler.

Liberal düşünencin ‘görünmez el’ tezi ünlüdür: Devlet ekonomiye karışmadığında, kişisel çıkar peşinde koşan özgür bireyler, kendiliğinden, toplumun refahına katkıda bulunmuş olurlar. Başka bir deyişle, kendi çıkarlarına göre davranışan bireylerin ekonomik faaliyetleri, bireysel olarak amaçlanmamış ama toplumsal açıdan yararlı sonuçlar doğurur. Yönetim modeline anti-liberal bir gözlükle, ama liberal düşünencin bu temel tezi ışığında bakacak olursak, şunu iddia edebiliriz: ‘Görünmez el’in çağdaş görüntüsü yönetimdir; ancak, yönetim faaliyetleri, kapitalist sistemi büsbütün katıksızlaşmaya sürükleyerek, kendiliğinden ve amaçlanmamış biçimde çökertebilir. Eğer böyle bir çöküşten toplumsal açıdan yararlı sonuçlar doğacağına inanıyorsak, yani liberalizme ve kapitalizme karşıysak, yaşadığımız bu yönetim çağında ironik bir dilekte bulunabiliriz: ‘Bırakınız yapsınlar, bırakınız geçsinler’!

**APPENDIX B**  
**CURRICULUM VITAE**  
**July 2006**

**Emre Özçelik**

ozemre@metu.edu.tr & emreozcelik@anadolu.edu.tr

**Lecturer:** Department of Economics, Faculty of Economic and Administrative Sciences, Anadolu University, Eskişehir, Turkey.

**Part-time Faculty:** Department of Economics, Faculty of Economic and Administrative Sciences, Middle East Technical University (METU), Ankara, Turkey

**Education**

Ph.D. in Economics: July 2006 – Department of Economics, METU, Ankara, Turkey (Cumulative GPA: 3.94 / 4.00)

M.Sc. in Economics: September 2000 – Department of Economics, METU, Ankara, Turkey (Cumulative GPA: 3.40 / 4.00).

B.Sc. in Economics: June 1998 – Department of Economics, METU, Ankara, Turkey (Cum. GPA: 3.22 / 4.00).

**Employment Record**

October 2005 – Present: Lecturer, Department of Economics, Anadolu University, Eskişehir, Turkey.

February 2006 – Present: Part-time Faculty, Department of Economics, METU, Ankara, Turkey.

September 2005 – January 2006: Part-time Faculty, Department of Economics, Bilkent University, Ankara, Turkey

July 1998 – September 2005: Teaching & Research Assistant, Department of Economics, METU, Ankara, Turkey.

### **Fields of Academic Interest**

Institutional Economics, Austrian Economics, History of Economic Thought, International Political Economy, Economic Development and Global Governance, Economics of Innovation

### **Refereeing**

Emerging Markets, Finance and Trade

### **Book Translation**

English original: *Reclaiming Development: An Alternative Economic Policy Manual* by Ha-Joon Chang & Ilene Grabel, Zed Books, London, 2004 (Turkish translation: *Kalkınma Yeniden: Alternatif İktisat Politikaları Elkitabı*, İmge Kitabevi, Ankara, Nisan 2005).

### **Publications**

“Avusturya İktisadı, Kurumsal İktisat ve Kurumlar”, Eyüp Özveren (der.), *Kurumsal İktisat* içinde, 2006’da İmge Kitabevi’nden yayımlanacak.

2006, “An Institutionalist Perspective on the Future of the Capitalist World-Economy” (joint with Eyüp Özveren), *Journal of Economic Issues*, XL (2): 413-420.

2005, “An Unconventional Critique of Economic Liberalism: Reconsidering the Austrian School in the Light of Fernand Braudel”, *METU Studies in Development*, 32 (June), 125-154.

2004, “Does Innovativeness Matter for International Competitiveness in Developing Countries? The Case of Turkish Manufacturing Industries” (joint with Erol Taymaz), *Research Policy*, 33 (3), 409-424.

2004, “Tekstil ve Hazır Giyim Sanayilerinde Uluslararası Rekabet”, (Ozan Erugur ve Erol Taymaz ile birlikte), *İktisat, İşletme ve Finans*, 217 (Nisan): 5-23.

## **Workshop Participations**

“Cambridge Advanced Programme on Rethinking Development Economics (CAPORDE)”, University of Cambridge, UK, July 4-17, 2002.

“Multiple Citizenship in a Globalizing World: Germany in Comparative Perspective”, Bremen University, Germany, June 27-29, 2002.

“Baku-Tblisi-Ceyhan Petroleum Pipeline Project: Environmental and Social Impact Assessment”, Bilkent Hotel, Ankara, Turkey, September 2001.

## **Conference Presentations**

“An Institutionalist Perspective on the Future of the Capitalist World-Economy” (joint with Eyüp Özveren), paper presented at Association for Evolutionary Economics (AFEE) Conference, Boston, Massachusetts, USA, January 5-8, 2006.

“Kapitalizmin Yeni Psikozu: Manik Piyasa, Depresif Siyasa”, Dokuzuncu Ulusal Sosyal Bilimler Kongresi’nde sunulmuş özet metin, Türkiye Sosyal Bilimler Derneği (TSBD), Ankara, Türkiye, 7-9 Aralık 2005.

“Re-reading Karl Polanyi against Joseph Schumpeter and Fernand Braudel towards an Institutional Political Economy Perspective”, abstract presented at International Karl Polanyi Conference, İstanbul, Turkey, October 13-16, 2005.

“The Prospects of ‘Reclaiming Development’ *vis-à-vis* the Global ‘Governance’ Thesis”, paper presented at Association for Heterodox Economics (AHE) Conference, London, UK, July 15-17, 2005.

“Questioning ‘Governance’: Reconstructing ‘Embeddedness’ or Building ‘Fictitious’ Institutions?”, abstract presented at European Association for Evolutionary Political Economy (EAEPE) Conference, Rethymno, Crete, Greece, October 28-31, 2004.

“Money, Market Economy and Capitalism in ‘Liberal Creed’: An Unconventional Critique of Austrian Economics”, paper presented at the PhD Students’ Seminar of European Society for the History of Economic Thought (ESHET) Conference, Venice & Treviso, Italy, February 26-29, 2004.

“Austrian Economics and Fernand Braudel on the Conception of ‘Market’”, paper presented at European Association for Evolutionary Political Economy (EAEPE) Conference, Aix-en-Provence, France, November 7-10, 2002.

“Criteria for Re-mapping Institutional Variety” (joint with Eyüp Özveren), paper presented at European Association for Evolutionary Political Economy (EAEPE) Conference, Siena, Italy, November 8-11, 2001.

“Does Innovativeness Matter for International Competitiveness in Developing Countries? The Case of Turkish Manufacturing Industries” (joint with Erol Taymaz), paper presented at Economic Research Forum (ERF) Conference, Cairo, Egypt, January 15-17, 2002 & International Conference in Economics V, Economic Research Center (ERC), Middle East Technical University, Ankara, Turkey, September 10-13, 2001.

“Medya Tercihleri ve Nedenleri: Ankara 1999” (Erkan Erdil, Zehra Kasnakoğlu ve Emel Memiş ile birlikte), Uluslararası İktisat Kongresi, Ekonomik Araştırmalar Merkezi, Orta Doğu Teknik Üniversitesi, Ankara, Türkiye, 13-16 Eylül, 2000.

### **Teaching Experience**

Econ 434: Topics in Economics, Department of Economics, Anadolu University, Eskişehir, Turkey (Spring 2006).

Econ 328: Econometrics II: Department of Economics, Anadolu University, Eskişehir, Turkey (Spring 2006).

Econ 101: Introduction to Economics I, Department of Economics, Bilkent University, Ankara, Turkey (Fall 2005).

Econ 211: Principles of Economics I, METU, Ankara, Turkey (Fall 2005).

Econ 210: Principles of Economics, METU, Ankara, Turkey (Summer 2004, Fall 2004, Spring 2005, Summer 2005, Fall 2005, Spring 2006).

### **Linguistic Skills**

Turkish: Native

English: Fluent

German: Basic reading

### **Software Knowledge**

Microsoft Office

Stata

E-Views

Microfit